



Breaking News: The Air Canada (TSX:AC) Bailout Is Nearly Ready

Description

This morning, *The Globe and Mail* reported that the government of Canada is preparing a bailout of the national airline industry. This could be a game changer for Canada's largest airline, **Air Canada** ([TSX:AC](#)).

Like every other airline in the world, [Air Canada has had a rough year](#). The stock is down 66.5% year to date. Air traffic has plunged so significantly, that the company has had to slash its workforce and sell some of its aircraft. In short, Air Canada, along with the rest of the airline industry, desperately needed a government bailout.

Now that the bailout package is being worked on, investors should expect a sudden bounce-back in Air Canada stock. Here's a closer look at what this means for the company and its shareholders.

Air Canada bailout

Canadian airlines collectively employ over 50,000 people, which makes the industry a critical component of the national economy. These airlines have been lobbying for government support since the start of the crisis. Until today, the government has never indicated that a bailout was due.

However, the government has bailed out the industry in the past. Back in 2009, shortly after the global financial crisis, the government stepped in to rescue major airlines with a multi-billion dollar deal. This year, the United States government has bailed out its airline industry with a US\$25-billion package.

Now, it seems the Canadian government is willing to work on something similar. A bailout could unlock tremendous value in Air Canada stock.

Air Canada stock valuation

Unsurprisingly, Air Canada stock valuation has been compressed this year. At the moment, it's trading at just 2.4 times book value and 35% of trailing year's sales. Meanwhile, the airline has bolstered the balance sheet by cutting costs and raising capital.

Air Canada has borrowed more cash to stay afloat. At the time of writing, it already has \$8.6 billion of cash and cash equivalents on its balance sheet. That's enough to help it survive for a couple of years. However, a government bailout would extend this runway of cash tremendously, which means bankruptcy is clearly off the table.

As the pandemic is resolved, Air Canada could expect to see air traffic steadily climb. If air traffic fully recovers by 2021 or 2022, and Air Canada stock returns to its pre-crisis valuation, the upside could be over 200%. For most investors, this speculative bet is worth it.

Bottom line

The Globe and Mail's recent report of a potential airline bailout is big news. Air Canada stock is already trading up 7% this morning. Depending on the size of the bailout package and the amount of time it takes air traffic to fully recover, Air Canada stock could double or triple within a few years.

Investors with an appetite for risk and faith in the government should consider adding this stock to their portfolio. The potential upside alone should convince most growth investors to watch this story closely.

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