



Is Air Canada Stock a Buy if it Gets a Government Bailout?

Description

Air Canada ([TSX:AC](#)) continues to face challenges amid ongoing travel restrictions and uncertainty surrounding future demand. Should [contrarian](#) investors buy Air Canada stock on the hopes of a bailout?

Outlook for Air Canada

The airline industry hoped the pandemic would subside by now and that travel restrictions could be lifted. Unfortunately, a second COVID-19 wave threatens Air Canada and its peers, and the government is considering ways to help.

The United States, Canada, and Europe are all seeing COVID-19 cases spike. The E.U. just banned Canadians from visiting due to the rising caseload in the country. Canada continues to maintain its ban on all foreign visitors, including Americans. In addition, the U.S. border remains closed to all non-essential land travel.

Air Canada entered the crisis with a solid balance sheet and moved quickly in the early part of the pandemic to raise funds. The airline finished Q2 2020 with more than \$9 billion in liquidity. That would have been sufficient to carry it through next year, assuming a gradual resumption of bookings.

Air Canada cut roughly 20,000 employees in June and scrapped dozens of planes in an effort to reduce expenses. Even with these measures, the company still [anticipated](#) net cash burn of \$15-17 million per day through the third quarter. When the Q3 results come out, investors shouldn't be surprised if the cash-burn number is higher than that range.

For the moment, it appears flight restrictions will remain in place for several months. In fact, Air Canada and the rest of the airline industry might not get relief until COVID-19 vaccines are widely available. That could be the middle of 2021.

Bailout options for Air Canada

Europe and the United States already provided bailout funding to airlines. The money comes with strings attached, and Air Canada stock investors should anticipate similar terms for any assistance from the Canadian government. Air Canada and its peers are not popular with the general public due to their policies of not refunding money this year on all cancelled flights. As a result, the government has to be careful how it uses taxpayer cash to bail out the industry.

WestJet just announced it will refund all flights it cancelled due to the pandemic. The move is widely viewed as an olive branch to help smooth the path to government assistance. Air Canada will likely have to follow WestJet's lead. That would put its balance sheet at further risk.

A full nationalization isn't expected, but it wouldn't be a surprise to see the Canadian government take a large equity stake in Air Canada. This could come with demands for seats on the board of directors and require commitments on environmental measures, such as emissions reduction.

Industry Minister Navdeep Bains recent said the government is "exploring all options."

Should you buy the stock now?

At the time of writing, Air Canada stock trades at \$17 compared to \$15.50 a few days ago and \$50 before the pandemic. The shares might look [cheap](#), but contrarian investors should be careful.

The industry is in big trouble. One American airline just said it might be a decade before business travel returns to 2019 levels. If that's true, profits from the most lucrative seats won't return for a long time. At best, most airlines don't expect capacity to recover for at least three years.

The government isn't interested in savings shareholders. It simply wants to protect jobs and keep the airlines alive until they can stand on their own two feet again. Equity stakes could be taken at much lower prices than the current level and terms of financial aid could drive up costs.

As such, I would look for other opportunities today. There are simply too many unknowns right now to bet on Air Canada stock.

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