



Air Canada (TSX:AC): Where's the Bail Out?

Description

Rescuing the nation's largest employer and airline should be an obvious move. However, nothing has been obvious or straightforward this year, which is probably why **Air Canada's** ([TSX:AC](#)) bail-out package is in limbo.

Air Canada stock is still trading at less than half its value at the start of this year. Air traffic collapsed 87% during the pandemic. Unsurprisingly, Air Canada lost billions in revenue and had to lay off staff and cut routes to stay afloat. The company has also raised some capital to weather this storm. However, investors are still waiting on the federal government to step in and provide the ultimate catalyst.

If you're a shareholder or looking to add this stock to your portfolio, here's what you need to know.

Air Canada bailout

Governments across the world have stepped in to rescue their domestic carriers. The French and Dutch governments have offered \$12 billion to Air France-KLM. Alitalia has been nationalized, while the U.S. government has offered billions to its largest airlines. Germany, Britain, and Spain have offered similar packages to their airlines.

In Canada, a [potential bailout](#) is clearly on the horizon. *The Globe and Mail* recently reported that government officials are working on a package to rescue the airline industry, and discussions are ongoing.

According to the report, the airline industry is seeking three key concessions from the government: cheap loans, subsidies for workers, and rollbacks of fees charged during the crisis.

Air Canada CEO Calin Rovinescu told *Bloomberg* yesterday that the firm was willing to offer refunds to customers as part of a bailout package. However, he clarified that offering the government equity ownership would be unacceptable. These granular details indicate that discussions have progressed enough, and a bailout could arrive sooner rather than later.

However, Air Canada's prospects have improved significantly in recent months. The stock has plenty of upside, even without a bailout.

Air Canada stock

During the crisis, Air Canada raised funds and slashed costs. That's put the company in a better position to negotiate with the government and survive while the crisis is resolved.

After multiple funding rounds, Air Canada has roughly \$8.6 billion of cash and cash equivalents on its balance sheet. That's more than the company's current market capitalization. It's also enough to cover cash burn for at least the next year.

If bailout negotiations fall apart, management could decide to cut costs further and raise more money. The company has already said that multiple routes could be suspended and another round of layoffs could be inevitable if a bailout isn't offered soon. That means bankruptcy is off the table for now.

Meanwhile, the recently developed vaccines could spur air travel by the end of 2021. If air traffic and revenues bounce back to pre-crisis levels, Air Canada stock could be worth multiple times more than it is now.

Bottom line

Air Canada's long-awaited bailout could be just around the corner. Contrarian investors may want to add exposure to this right away.

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vraisinghani

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