



How Long Will the Feds Isolate Air Canada (TSX:AC) From a Bailout?

Description

Air Canada ([TSX:AC](#)) is stumbling from one crisis to the other. The travel curtailment and arid pressure have taken a toll on the airline sector and tourism industries. Back in the 2009 financial crisis, the Canadian government stepped forward in liberating the airline with a billion-dollar bailout. Now in the 2020 crisis, Canadian airlines are once again grappling to survive financially as travel urge remains shallow.

Air Canada isolated from a bailout

Due to the drop in air traffic, AC has shed down the workforce and trade-off its airbuses. Airlines worldwide have received the assistance of \$123 billion, while Canadian airlines have not even received peanuts in sector-specific support from the government in the pandemic crisis.

AC has lost much of its value since the COVID-19 hit. It has \$8.18 billion in liquidity. Its third-quarter [revenue](#) grew 44% sequentially to \$757 million as there were international and interprovincial travel restrictions. AC was hit hard as passenger revenue fell 90% year-over-year, fearing infection or sickness and travel restrictions.

It cancelled dozens of regional routes and laid off many pilots and workers. There was a rage of anger when the government decided to handover vouchers instead of refunds for pre-booked tickets.

AC has also cut down on the operating expenses by 26% sequentially to \$1.54 billion after enforcing a \$1.5 billion cost-cutting program. The consistent cost control helped AC curb down daily cash burn to \$9 million from \$15 to \$17 million in the last quarter.

It reduced net loss to almost \$685 million from \$1.75 billion in the third quarter. Is AC curtailing the losses by postponing the refunds of cancelled flights? We will have to see if the passengers find their utility in the vouchers instead of a cash refund.

Bailout plans to rally next level

Air Canada adopted the Canada Emergency Wage Subsidy (CEWS) for most of its workforce effective March 15. In July, the subsidy was redesigned and extended until December. In September, the Justin Trudeau government announced a further extension of the program to June 2021. AC intends to continue its participation in the CEWS program, subject to meeting the eligibility requirements. Despite using CEWS, AC has a negative free cash flow of \$2.42 billion and net debt of almost \$5 billion. It needs more direct assistance from the government.

Transport Minister Marc Garneau revealed in a statement reported by [Reuters](#), "The airline sector cannot respond to these challenges on its own, given the unprecedented impacts on its operations." He also said, "We are ready to establish a process with major airlines regarding financial assistance which could include loans and potentially other support to secure important results for Canadians."

The government is insisting AC to refund prepaid flight tickets to its passengers and reopen the routes called off. Garneau also said, "Before we spend one penny of taxpayer money on airlines we will ensure Canadians get their refunds. We will ensure Canadians and regional communities retain air connections to the rest of Canada."

However, Garneau has not specified any time limit regarding an aid package release for the aviation industry. The conservatives are ensuring that the liberal government's plan brings forward the interest of passengers and workers first, permitting aviation sectors to recuperate. The government is under pressure from several aviation workers unions to dispense bailout as early as possible.

Say no to investment in Air Canada

The government has to act fast on its bailout packages for airlines. This will give relief to shareholders, but they should not expect the stock to go beyond \$25. I would suggest you stay on the sidelines and avoid Air Canada until the government decides on a bailout package.

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