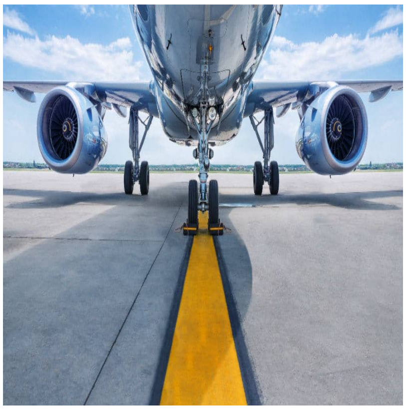

Air Canada (TSX:AC) Grabs $400 Million in Federal Aid: Shareholders Get Rich

Description

Air Canada (TSX:AC) stock has been doing incredibly well lately. Ever since **Pfizer's** COVID-19 vaccine announcement, AC shares have been rallying. Not only that, but it was recently revealed that Air Canada got a healthy amount of federal aid to help it through the pandemic — $400 million worth, to be specific. In this article, I will explore the exact nature of this federal aid and what it means for the company.

$400 million in CEWS money

The $400 million Air Canada got from the feds this year was Canada Emergency Wage Subsidy (CEWS) money. That is, money to subsidize the company paying its employees.

Early on in the pandemic, Air Canada announced that it was going to lay off about 20,000 employees. Later, it rehired 16,500 of them after receiving the CEWS. This in itself is not news. It was reported as early as May that AC was getting CEWS and re-hiring employees as a result.

What *is* new is the exact amount of money received. $400 million is nearly as much as Air Canada brought in in revenue in the second quarter. In that quarter, AC had just $527 million in revenue. So, the company's CEWS subsidy was enough to replace almost a full quarter's worth of sales.

Air Canada stock soars

Whether due to CEWS money, the Pfizer vaccine, or some other cause, AC stock has been flying lately. It has risen 125% since its lowest point in the COVID-19 market crash. Since the CEWS story broke on *CBC*, it has risen a more modest 0.74%. Most likely, it's the vaccine rather than the CEWS that's driving Air Canada's recent gains.

However, the CEWS story and Air Canada's stock price are still closely related. Specifically, they show how vulnerable Air Canada is without federal money coming in. Even with the $400 million worth of aid it has received, Air Canada has lost about $3.4 billion this year. That's thanks to a combination of revenue collapsing and fixed costs remaining high. Unlike some industries, airlines can't erase costs right alongside revenue. Financed heavily with debt, their fixed costs are just too high.

It would be really interesting to see how AC would have fared this year without the CEWS money. Almost certainly, it wouldn't have been able to keep as many people employed as it did. But would the problems have been even greater than that? Would AC have had to cancel even more routes if not for the CEWS, resulting in an even larger revenue decline? It's hard to say right now. But the company's annual report may shed some light on these questions.

Bailout incoming?

The really big picture investors need to look at here is whether or not Air Canada will need a bailout. It's already clear that the company needed federal money to keep staff in place. The question is whether it'll need it to remain solvent. Currently, Air Canada is bleeding cash and running huge losses. If the vaccine isn't ready in time, it may just need that bailout after all.

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