



Is Air Canada Stock Worth Owning, Bailout or No Bailout?

Description

A company with an interesting rebound thesis, **Air Canada** ([TSX:AC](#)) has been one of Canada's most heavily traded stocks in recent months. This is a company that has a mix of bullish and bearish catalysts that could take this stock in a number of directions over the near-term.

One of the key questions investors want answered with Air Canada is: will a bailout materialize? Perhaps even more important – does Air Canada need a bailout? Further, is this a company worth investing in, regardless of how bailout talks progress?

Bailout talks appear to be in limbo right now

On Thursday of last week, David Rheault, Air Canada's managing director of government affairs, answered questions by the House of Commons transportation committee. Some of these questioned centered on the fact that Air Canada has been slow in providing refunds to customers.

On this topic, Rheault commented that vouchers have been provided to customers impacted by the pandemic. He added that "If we get some aid from the government, we'll be able to refund" these tickets.

It appears Air Canada is holding passengers' pre-sold ticket revenues hostage until a bailout is announced. Accordingly, this move has been met with backlash from the public. Indeed, many folks have a sour taste in their mouths from hearing this. After all, no one wants to hold onto vouchers that aren't worth anything until they can fly again. To make matters worse, it appears Air Canada's been holding onto a lot of the flying public's money. As of the company's previous earnings release, Air Canada had more than \$2 billion in advance ticket sales on its books.

These bailout talks are inherently a political game of chicken played by executives and politicians. Unfortunately, it looks like Air Canada's customers are caught in the crossfire right now. Whether these moves from Air Canada make a bailout more or less likely is uncertain. However, Air Canada could have some PR issues to deal with following this fiasco the longer these talks take. Bailout or no bailout, the longer this pandemic rages on, the more damage is being done to Air Canada's reputation.

Cash burn a key concern for many investors

Air Canada has said it's burning through approximately \$15 million a day. This comes even as the company has cut its workforce in half, and has tried to find other revenue streams to help stop the bleeding. This level of cash burn is unsustainable. Accordingly, the company has used this fact as a rationale for holding onto advance ticket revenues.

To what extent Air Canada's cash burn improves in the coming quarters remains to be seen. However, it does appear Air Canada's liquidity situation would be greatly improved by a bailout. It remains to be seen if the Canadian government will want taxpayer money to be burnt, rather than corporate funds.

The company's [upcoming earnings release](#) later this week should shed some light on what Air Canada's management team is forecasting. I think investors will be keenly paying attention to these numbers and forecasts. Accordingly, for those so inclined to dabble in Air Canada stock, I'd keep an eye on these expectations.

Bottom line

Right now, Air Canada is a stock with too much volatility for my liking. Rebound play or not, there are too many potential risk factors with this company. Thus, I'm staying on the sidelines with respect to this name right now.

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Date

2025/08/16

Date Created

2021/02/08

Author

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