



Air Canada (TSX:AC) Stock: Bailout Incoming!

Description

It's increasingly looking like **Air Canada** ([TSX:AC](#)) is going to get a bailout. Back in December, Trudeau government officials said that the airline would need to refund passengers in order to get federal money. This month, Air Canada agreed to the terms. After months of speculation that airlines and the federal government were in bailout talks, this latest news pretty much confirmed that it had been going on. The only question is whether the bailout will actually materialize.

Air Canada agrees to refunds

With Air Canada having agreed to refund all of its customers, the main obstacle to it being bailed out has been eliminated. The feds announced many months ago that refunds were the main condition of airlines getting bailouts. With that agreed on, all that remains to “negotiate” are mundane financial details.

Speaking of which: [Air Canada's bailout](#), if it happens, will *not* be a handout. In an [interview with CTV News](#), Unifor president Jerry Dias said that the airline would be getting a low interest loan. Specifically, the loan would be worth \$7 billion and would have a 1% interest rate. That's pretty cheap debt but not a handout.

According to *StatCan*, January inflation was 1%. If inflation continues at that rate then the federal government will about break even on the anticipated airline loans in inflation-adjusted terms. Granted, many people take issue with the way inflation is calculated, and few think that we'll stay at 1% after the economic re-opening. But assuming that the airline paid down no principal early, the federal government would get back \$700 million in interest payments by the end of the 10-year term. It's not a bad deal, all things considered.

Financial situation: Not horrible but deteriorating

One interesting question for investors is whether Air Canada really needs a bailout *at all*.

As of its most recent quarterly report, the company had \$8 billion in unrestricted liquidity — that is, \$8 billion *combined* between

- Cash
- Short-term securities
- Revolving credit facilities and other easily accessible types of debt

While Air Canada has been losing money quarter after quarter, \$8 billion would allow it to sail through two straight years of billion-dollar quarterly losses. Most experts are predicting that the COVID-19 pandemic will be over by sometime in 2022, so it's not clear why Air Canada needs extra money.

Nevertheless, this is very welcome news. This “bailout” will help many COVID-impacted Canadians finally get their refunds from airlines. For that reason alone, it will be a positive for the country. The cheap debt will, of course, be a positive for the company, allowing it to finance projects more cheaply than would otherwise be possible.

Foolish takeaway

In 2021, we've seen Air Canada stock rallying, driven by optimism about a future economic re-opening. The fact that a bailout is in the cards only adds to the bullish thesis. There's serious room for debate as to whether AC even *needs* a bailout at this point. But for investors, an extra \$7 billion at rock-bottom interest can only be a good thing.

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andrewbutton

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