



Air Canada (TSX:AC) and the Government Reach the Climax of the Bailout Game

Description

Air Canada ([TSX:AC](#)) stock, the roaring lion last month, is the sleepy bear this week. So is the fate of this highly volatile stock as everything is a toss of a coin for the airline. Now, the airline is bracing itself for a bailout. One by one, it is complying with the Canadian government's bailout conditions. The ball is now in the government's court. No bailout will only anger the worker unions and thousands of Canadians.

Air Canada enters the sixth month of all talks but no bailout

In November 2020, the Justin Trudeau government announced financial assistance for airlines and airports. Since then, the government has been silent on the topic. It is impossible to exclude the country's largest passenger airline Air Canada from an aviation-specific bailout. But for the last five months, all you heard are ongoing talks with no clear picture. Even AC is waiting for the government to put the offer on the table.

The government laid out the conditions that AC has to fulfill to get a bailout. But it did not mention even once mention the amount of the bailout or the method by which it will disburse the bailout money. So AC is doing with what they do know about the bailout.

The bailout conditions have been laid

The government laid out three conditions for the bailout.

Condition 1: Give passengers ticket refunds for the flights postponed or canceled because of the pandemic. AC's former CEO had [stated](#) in a BNN Bloomberg interview that they will refund the ticket money once they get the bailout and the money is sizeable.

Condition 2: Restart some routes that AC suspended in the light of the pandemic. As the government was taking forever to give the bailout, AC cut more routes in January amid the second wave of the pandemic. But now, it is looking to increase some routes as winter ends and demand returns. AC reduced the route from Deer Lake to Toronto to five days a week in January due to a lack of demand. But from March 31, it will make the route seven days a week amid rising demand. AC needs

some assurance of a bailout to reopen other routes as well.

Condition 3: Protect Canadians and the public interest. Now, this is a vague condition, but I believe it means keeping air travel affordable. AC has made arrangements for that by altering its [Aeroplan loyalty program](#).

Condition 4: The Canadian government has not explicitly stated this, but other governments had carbon emission reduction as one of the bailout conditions. AC is leaving no excuse for the government to delay or reject the bailout. It recently pledged to reduce greenhouse gas (GHG) emissions by 20% in flights and 30% in ground operations by 2030 and achieve net-zero emissions by 2050.

Should you buy Air Canada stock at a dip?

Air Canada stock is very volatile at the moment. After rising 41% post-2020 earnings, the stock dipped 7.35% this week as investors are losing patience. In the earnings, AC stated that bailout talks are progressing well, but it's been a month, and there is no news. The airline is burning cash at the rate of \$15-\$17 million per day. A month of delay and AC has already lost \$510 million.

If the bailout amount is anything less than \$1 billion, the stock could fall further. The bullish investors will cling on to even a small ray of hope and drive the rally. I don't recommend putting your money in Air Canada, but its trading volumes are too good to ignore. You can buy the stock when it falls below \$24 and sell it when it crosses \$28.

Make no mistake. AC is not yet out of the storm. Metaphorically speaking, it is flying with just one engine, and the journey to recovery is long.

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