



Air Canada (TSX:AC) Stock: Will a Government Bailout Save the Company?

Description

It looks like even a hint of a government bailout coming for **Air Canada** ([TSX:AC](#)) is enough for investors to jump back in. The company reached 52-week highs recently, as a market [recovery](#) is underway. The stock is up about 60% as of writing in the last year.

Bailout speculations

Air Canada's former CEO Calin Rovinsecu recently fanned the flames of a [bailout](#) package during Q4 earnings last month. He stated in February that while there isn't assurance of an agreement on sector support, he is finally optimistic about a bailout. The stock has been climbing ever since.

The bailout is what everyone is waiting for, almost literally. Whether you're invested in the stock or had a flight cancelled with Air Canada, everyone is waiting for that cash to come in. The company stated it would not be giving out refunds until a bailout is received. Until then, customers have vouchers to hold onto.

The bailout talks seem to be in the final stage, according to Unifor president Jerry Dias. The refunds are a precondition to the bailout packages, and Air Canada has agreed to this. It seems Air Canada is likely to agree to practically anything, as the company is desperate for the financial support. The company is now at almost \$13 billion in debt, with millions added every day it has grounded aircrafts. No number has been given to what the bailout would entail.

Cost saving initiatives, but one major issue

Depending on how you look at it, Air Canada took a number of cost-saving initiatives before the pandemic. On the one hand, it spent a boat load on a new fleet of aircraft. But that aircraft is fuel efficient, providing a solid stream of more revenue when planes are back in the air on a regular basis.

It's also taken a recent cost-saving effort of making Jazz Aviation its exclusive operator for regional flights. The company expects to save \$400 million in the next 15 years from this move. So, between

this and a bailout, investors believe all this support could keep shares prices soaring.

However, there is still the main problem of how Air Canada stock used to get its revenue. That's through mainly U.S. business passengers taking long-haul flights with layovers in Canada. These flights won't be available on a regular basis for possibly years to come. So, Air Canada will have to find a way to edge in on the short-haul market and get back those U.S. passengers. This is going to be incredibly hard for a company that may have the majority of the Canadian market, but definitely not in any other country.

Foolish takeaway

I wouldn't get in on Air Canada stock until all details come forward about the government bailout. There are likely to be several preconditions that might have investors thinking twice. So, it's still unclear if any bailout will save the company at this point.

For now, the valuations look alright but not excellent given the debt level. The P/S ratio of 1.7 is great, but a 5.1 P/B ratio isn't ideal. With the next year looking still troublesome, albeit slightly better, for Air Canada stock, I still wouldn't buy shares when there are so many other valuable growth stocks out there.

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