



Is \$50 on the Cards for Air Canada (TSX:AC) Stock After its Epic Bailout Package?

Description

After months-long negotiations and delays, Canada's flag carrier **Air Canada** ([TSX:AC](#)) and the Canadian government have found some common ground. Air Canada will receive up to \$5.9 billion in a government bailout package amid the pandemic.

Air Canada and the bailout package

It is a great deal for Canada's biggest passenger airline. Though the package is coming a bit late, it still addresses most of the issues and could play a pivotal role in Air Canada's recovery.

Under the deal, Air Canada will receive \$5.4 billion in low-interest loans for which the government will take a 5% stake in AC. Air Canada also has to pay refunds to customers who paid for tickets but could not fly due to travel restrictions. This is likely to cost around \$1.4 billion.

The flag carrier also [agreed](#) to resume operations on routes it suspended amid the pandemic. The deal terms also state that the financial aid can't be used for share buybacks and dividends during the loan period. Executive compensation is also capped under the deal. Importantly, the deal is coming in at a 5% stake, which makes it lucrative for Air Canada.

Air Canada witnessed an almost 75% decline in the number of passengers, which resulted in a similar drop in revenues last year. It posted \$4.6 billion in losses in 2020 against a profit of \$1.5 billion in 2019.

Passenger airline is a capital-intensive business. They have to spend a big chunk on maintenance even when their fleet is grounded. Air Canada burnt billions of dollars last year, which significantly dented its balance sheet.

Thus, these low-interest loans from the government should bode well for Air Canada. Notably, how soon it resumes operations and how the demand plays out then will bring more clarity about its revival.

Air Canada is already among the very few financially strong global airlines. The package will help it

sustain longer in the low-demand period. Also, this loan will be crucial for its capital investments when it intends to expand operations in the [post-pandemic environment](#).

What's next for AC stock?

Air Canada investors will be delighted with the deal. AC stock has soared more than 20% this year in the hopes of federal aid. The stock might continue to soar higher given the decent size of the package and reasonable terms.

Air Canada stock is still trading 50% lower against its last year's highs. Whether the optimism driven by the bailout drives AC stock to those levels remains to be seen.

While it is too soon to tell that, but Air Canada has certainly closed one of the crucial pacts at the right time.

However, uncertainties are far from over. The mutating viruses and fear of more restrictions could hinder its growth in the short term. Faster vaccinations will play a major role in fueling air travel demand and curb the pandemic. However, the timeline for this is anybody's guess.

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