



Ottawa Invests in Air Canada (TSX:AC): Should You?

Description

As a part of the massive financial relief package for **Air Canada** ([TSX:AC](#)), Ottawa is poised to take a hefty stake in the Canadian airline which has fallen on hard times amid the pandemic. As part of the nearly \$6 billion financial relief package, the government will purchase \$500 million worth of Air Canada shares at around \$23, with the option to purchase 14 million additional shares.

I've touted Air Canada as my favourite airline stock in numerous prior pieces, because it was most likely to get financial relief or a bailout if it so needed it. I couldn't say the same for the U.S. airlines, as they were already too many, and the government may have been more fine with letting one go down at the hands of the [coronavirus](#). Ottawa couldn't afford to let Air Canada go down, though. It's the one major internationally focused airline that would have cost way more over the long term if it were to fall into bankruptcy.

Air Canada gets the financial support it needs

The reaction to Air Canada's latest round of government relief was pretty [muted](#). The stock barely budged before continuing to go back into retreat mode. Shares are off just over 12% from their 52-week high, and it could be headed lower, as Canada grapples with a vicious variant-led third wave of cases. Reopening rollbacks, renewed restrictions, and, in some provinces, full-blown lockdowns have been implemented to curb the spread of the insidious coronavirus. The latest wave of the coronavirus typhoon was the last thing that Air Canada needed.

With variants pulling ahead of the vaccine rollout in Canada, some fear Air Canada could be headed to lower lows. I've heard numerous folks bringing up the thought of Air Canada stock falling to \$0. While I think AC shares could be pummeled back to the single digits, \$0 was out of the question, given the federal government is more than willing to lend a helping hand to the distressed airline.

But just because Ottawa took a big stake in Air Canada doesn't mean you should follow suit. Many risks remain, and the federal government doesn't exactly have the best track record of achieving market-beating returns with its investments in distressed companies.

Should you buy Air Canada, as it navigates another wave of rough waters?

Air Canada is burning through cash at an alarming rate. The slow vaccine rollout is not helping its cause. While I think the Canadian airline is headed for a brutal spring, I think the summertime could be far brighter, as shut-in Canadians look to revisit distant family and friends that they haven't seen in over a year.

Ottawa's latest round of aid and its equity stake is good news for Air Canada, but they're really not a surprise. Analysts covering AC stock are mildly bullish with mostly buy ratings and a consensus price target of \$31 and change, implying around 16% worth of upside from today's levels.

The stock trades at 5.2 times book value, which seems pretty fairly valued to me, given the long-term recovery trajectory. If I had to place a bet, I'd say that Air Canada stock will be headed lower over the coming weeks and months. The recent slew of COVID-19 variant news isn't looking great. The more the virus spreads, the more variants there will be. And that could give variants a lead over vaccine progress in the near term.

Foolish takeaway

If you're keen on getting in on Air Canada, I'd wait for the stock to plunge to the \$20-22 level (below Ottawa's cost basis) before getting in. Things could get really ugly before they get better, so fasten your seatbelt and get ready for a wild ride.

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