



## Where Is Air Canada (TSX:AC) Stock Headed Post Bailout: \$15 or \$32?

### Description

**Air Canada** ([TSX:AC](#)) stock dipped 5% so far this week, and it might fall more. As I said before, it is a momentum stock that [moves on the news](#). It is not the investors but traders and speculators who buy this stock to take advantage of the volatility. So, when the Justin Trudeau government announced a \$5.9 billion bailout, why did the stock dip? Or was the bailout a shield to prevent the stock from falling to \$15, as Canada [struggles](#) with the third wave of the pandemic?

### Will Air Canada stock hit \$32?

Many analysts who were bullish on Air Canada had set a \$31 price target for the airline on hopes of a bailout and reopening of sunny destination routes. The stock also reached \$31 for a brief moment in mid-March. But the government delayed the bailout too much, which pulled the stock down 13% to \$27.

When the government announced a sizeable amount sufficient to help the airline survive another pandemic year, it was not what investors had anticipated. Of the \$5.9 billion bailout package,

- \$2.5 billion is in unsecured loans;
- Another \$1.4 billion is in unsecured loans for ticket refunds;
- \$500 million is in equity warrants; and
- \$1.5 billion is in secured loans.

The \$500 million equity warrant is something that shareholders object to. The government can exercise the warrant to buy an aggregate of 14,576,564 AC shares at \$27.2698 per share over the next 10 years. But exercising of the warrant is subject to customary adjustments:

- 50% of the warrants are activated immediately with access to the bailout money.
- The other 50% will activate depending on the amount Air Canada draws from the \$2.5 billion worth of unsecured credit facilities.

If the government exercises all warrants, it will have a 10% equity stake and 19.9% voting rights in AC. That level of dilution is more than what analysts had anticipated. Hence, they reduced their price target

from \$31 to \$29. The warrant could also likely cap the stock's upside at \$28 or \$29. If it rises to \$32, the government might be encouraged to buy the stock at its warrant price, pulling the stock down to \$27.3.

But the current condition shows that AC stock could fall more.

## Will Air Canada stock hit \$15?

You may ask why I feel AC stock could fall to \$15. The airline stock has more than doubled in the last six months, after hovering in the \$15-\$20 range since the pandemic dip in March 2020.

This move from \$15 to near \$30 came on the back of vaccine news and hopes of reopening the economy. But the third wave of coronavirus is seeing new variants that are spreading faster and putting the younger generation in intensive care units. The possibility of international air travel restrictions easing seems unlikely.

The bailout has compensated Air Canada for its \$4.6 billion in net loss and brought its liquidity back to the April 2020 level. There is a risk the virus mutation might render the vaccine ineffective. That will bring the world back to April 2020, and AC stock could fall back to \$15. Without a bailout, the third wave could have pulled the stock down to \$15.

## Foolish takeaway

The current dip in AC stock is temporary and a good point to buy if you want to make speculative bets. AC stock could surge to \$32 even after the bailout that dilutes shareholder interest provided the pandemic situation stabilizes. Most U.S. airline stocks surged after the bailout. Some airlines even avoided drawing all the bailout money.

You would not want your portfolio to have large exposure to airline stocks. Before buying AC stock, strengthen your portfolio with quality resilient stocks.

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