Why Air Canada (TSX:AC) Stock Has Dropped 15% Over the Past Month

Description

On March 15, shares of **Air Canada** (TSX:AC) closed at $29.80. Yet on April 15, the stock closed at $25.43. This represents a drop of 14.66% in just one month.

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Here are two of the latest developments that have affected Air Canada's stock price.

Transat deal scrapped

In early April, Air Canada withdrew its bid to takeover beleaguered **Transat** due to antitrust hurdles in Europe. The deal was worth $150.83 million. Shares of Transat plunged over 20% when the news broke, marking their biggest intra-day percentage loss in over a year.

With Transat's total debt at over $900 million, the takeover would have been a welcome relief for shareholders in the company.

Despite the failed takeover by Air Canada, there is some hope that Transat will be rescued by Quebec businessman Pierre Karl Péladeau. He had previously said that he would offer $5 per share for the company. Shortly after the Air Canada deal collapsed, Péladeau said he would stand by his offer.

Government financial aid

On April 12, after months of speculation, the Canadian government announced the details of a bailout package for Air Canada. The deal allows Air Canada to access up to $5.9 billion through a loan program launched during the pandemic.

The deal contains several provisions, including the government's purchase of $500 million worth of Air Canada shares at $23.1793 each. Air Canada will receive a secured revolving credit facility worth $1.5 billion at a 1.5% premium to the Canadian Dollar Offered Rate. The facility is secured against specific assets of the airline.

The deal hinged on Air Canada's willingness to refund customers who were affected by the COVID-19 pandemic. In order to accomplish this, the airline will secure approximately $1.4 billion in the form of an unsecured credit facility to support customer refunds of non-refundable tickets. The terms include an annual interest rate of 1.211% and covers a seven-year term.

Air Canada must complete its purchase of 33 Airbus A220 aircraft, manufactured at Airbus's Mirabel, Quebec, facility, and its existing order of 40 **Boeing** 737 Max aircraft.

The airline must limit executive compensation and maintain its current employment level of approximately 14,900 personnel. And Air Canada will resume all regional services suspended due to COVID-19.

Air Canada stock drops

Shareholders were unenthusiastic about the terms of the financial aid package.

Immediately after details of the plan were released, shares of Air Canada fell. Not since the 1980s has the government been a shareholder of the airline known as "Canada's national airline."

An analyst for **CIBC** noted that the dilution for shareholders "was greater than we had anticipated. If all the warrants were exercised, the government would own 9.7% (of the airline)."

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The deal had reportedly been in the works for months. Regarding the timing of the delay, Finance Minister Chrystia Freeland said, "We wanted a good deal, not just any deal. And getting a good deal can sometimes take a little time."

While the deal was in the works, Air Canada had repeatedly complained that Canada was the only Group of Seven member without a financial bailout specifically for the aviation sector.

And while the government financial aid may seem like a boost to the company, Air Canada might not see capacity rebound to its pre-pandemic levels for several years. Being forced to follow through on the large plane orders and other aspects of the government bailout could add substantial costs for the airline.

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