Air Canada (TSX:AC) Bailout: What Does it Mean for the Stock?

Description

The long-awaited bailout package for **Air Canada** (TSX:AC) has finally arrived. The battered airline stock reported a massive net loss of $4.65 billion in February for fiscal 2020. The anticipation of a bailout leading up to the bailout taking place led to a rally that pushed its valuation as high as $31.

The delays in the bailout deteriorated investor optimism.

A $5.9 billion bailout was finally announced by Justin Trudeau's government. However, the airline stock did not skyrocket as many of its loyal shareholders might have hoped. The bailout was announced on April 12, 2021. At writing, the stock is down by almost 6% in a matter of days. Why is this happening? What does it mean for investors?

Today I will discuss the bailout, the conditions for Air Canada, and what it could mean for Air Canada investors.

The conditional bailout

The government uses taxpayer money to give bailouts to under pressure companies. It means that the government has to ensure that all concerned parties get a good deal from the bailout – not just the company.

The government announced a $5.9 billion bailout for Air Canada, but it comes with certain conditions that the company has to meet. The government will disburse this bailout in the form of five low-interest credit facilities worth $5.4 billion-plus $500 million in equity capital.

$2.48 billion of the loans are unsecured loans – it means that the government cannot recover this amount in case of a default. The $500 million equity warrant gives the government a 9.7% stake in the airline. The government's stake as part of the bailout is higher than expected, but the massive size of the bailout could make up for the dilution it creates.

Terms for the agreement

This bailout does not come for free. Air Canada has to ensure that employees, travelers, the company itself, its suppliers, and the overall economy should benefit from the bailout. Here are some conditions enacted to protect different parties:

To protect travellers:

- $1.4 billion in loans have been specifically granted to refund ticket money for flights that AC canceled on and after February 1.
- The airline has to restore 13 suspended regional routes and seven other routes via agreements with regional airlines.

To protect tax holders:

- The airline has agreed to cap off executive compensation at $1 million.
- AC will restrict capital expenditure, suspend dividend payouts, and share buybacks for the duration of the loan.

To protect employees and suppliers:

- The airline will maintain its workforce at the April 1, 2021 level, having already slashed over 21,000 jobs.
- The company will complete the purchase of 33 new Airbus aircraft made in Quebec, indirectly saving jobs. The airline is also hoping to complete its purchase of 40 Boeing aircraft.

Air Canada will also continue relying on the Canada Emergency Wage Subsidy (CEWS) program.

Foolish takeaway

Burning millions in cash a day, AC has been in a delicate position for a long time. The condition to not pay dividends or share buybacks for the loan period might make some investors bearish about Air Canada.

However, it will allow the company to repay its debts faster, improving its long-term prospects. The airline took the money it was burning at a hefty 9% interest rate. Focusing on repaying its debt might not look hopeful in the short term due to a lack of dividend payouts. However, its long-term performance could drastically improve due to the overall effect of the bailout.

Air Canada is trading for $25.43 per share at writing. While the initial reaction to the bailout does not look positive, it will prevent AC stock from going to $0.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Date
2025/09/12
Date Created
2021/04/19
Author
adamothman