



Air Canada (TSX:AC) Stock: Time to Buy It?

Description

Will the skies clear for the **Air Canada** ([TSX:AC](#)) stock following the federal government's aid deal to the country's [beleaguered flag carrier](#)? The Trudeau administration and the airline company finally struck an arrangement worth \$5.9 billion.

After months of intense negotiations, Air Canada will receive low-interest loans totalling \$5.4 billion. Also, the government will purchase \$500 worth of the [airline stock](#) that translates to 6% of the company's total equity. In exchange, Air Canada has acceded to several concessions, particularly the payment of customer refunds.

Despite the announcement on April 12, 2021, the share price slid 7.9% to \$24.86 to close the week. Has the time come to pick up Air Canada because a rebound is at hand?

No burden to taxpayers

Finance Minister Chrystia Freeland and Transport Minister Omar Alghabra said the loan facility is through the Large Employer Emergency Financing Facility (LEEFF). Freeland emphasizes that taxpayers aren't footing the bill. The government expects fully Air Canada will pay them back.

Apart from paying refunds to customers, the airline agreed to restore flights on nearly all suspended regional routes. Similarly, Air Canada would maintain its workforce at current levels, protect workers' pensions, and respect collective bargaining agreements.

Other conditions include a cap executives' compensation at \$1 million per year and suspension of share buybacks. During the loan period, there will be no dividend payments to shareholders too. Regarding the loan itself, Air Canada will utilize about \$1.4 billion of the unsecured credit facility tranche to pay customer refunds of non-refundable tickets. The annual interest rate for the seven-year term is 1.211%.

Rebuilding the business

Air Canada President and Chief Executive Officer Michael Rousseau said the new liquidity would achieve several aligned objectives, primarily a significant layer of insurance for the distressed airline. If you recall, the \$8.32 billion company had a very solid balance sheet pre-pandemic.

Rousseau is confident the government aid will enable Air Canada to rebuild its business. All stakeholders should benefit, and the airline becomes a significant contributor to Canada's economy again as it recovers. It would be for long the term, he adds.

Air Canada expects to complete 33 Airbus A220 aircraft acquisitions and consummate its existing firm order of 40 Boeing 737 Max aircraft. However, the orders are subject to the terms and conditions of the applicable purchase agreements.

Breakout is not sure

The main feature of the fresh liquidity program is that it's a fully repayable loan. Air Canada would draw from the available credit facility only when necessary. Also, the equity investment makes the federal government the latest investor. Should investors take the cue and start taking positions in Air Canada?

It's hard to tell whether the stock's breakout is certain. The resurgence of COVID-19 infections and re-emerging domestic lockdowns still blocks the growth runway. Noticeably, the bailout news didn't prop up the stock. Some sources say the deal's design was merely to secure access to air travel when it returns.

Had you invested \$20,000 in Air Canada on year-end 2020, your money would be worth only \$21,835.75 today. The current share price is also 50.2% lower than the \$50 on January 2, 2020. Given the uncertainty, I doubt if you can double your money in 2021.

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