



Air Canada (TSX:AC): Will \$5.9 Billion Be Enough for the Airline's Woes?

Description

"Better late than never" seems to fit the government's decision to finally come up with an aid package for the country's premier airline. Even though the \$5.9 billion is in no way a no-strings-attached aid to **Air Canada** ([TSX:AC](#)), it has the potential to solidify the chances of airline's survival, especially when the third wave might have resulted in another phase of suffering for the airline industry.

One positive outcome for Air Canada fliers would be the long-awaited refund. One stipulation of the aid package is that Air Canada would start the refund process and return the fare to fliers whose flights were cancelled due to COVID. The airline has already refunded \$1.2 billion since March 2020, but it's now offering refunds to a much larger consumer flier pool.

If the company dumps a significant portion of the aid money into refunds, will the remaining be enough for fixing Air Canada's financial problems?

Air Canada's finances

About \$1.4 billion are to be paid out as refunds to Air Canada fliers. Anyone who bought a ticket after February 2020 and had a flight that was cancelled due to COVID might be eligible for a refund, which still leaves Air Canada plenty to work with. The company has survived one of the worst slumps in its revenues in about a decade and has managed to pull through by employing brutal cost-cutting measures.

It might also allow Air Canada to resume some of its routes, which is likely to have a [positive impact](#) on its revenue. But it might be minor compared to the negative impact the third wave might have on air travel. In a way, the government's aid came at a great time.

In the wake of the third wave, the government might impose further restrictions on international travel, and stringent quarantine requirements might prevent international travel from recovering to a healthy level. The fear of the pandemic might already be affecting domestic air travel. None of this bodes well for Air Canada's financial recovery.

This makes the aid-package might exactly be the financial boost the airline needed to survive and continue to fly through the “pandemic-driven storm.”

Air Canada stock

The government is now the fourth-largest shareholder in Air Canada. It's the first time since the 1980s that the government has become a shareholder in the country's premier airline. This investment resulted in further share dilution, which is something that investors didn't take too positively to. The stock [dipped a bit](#) (over 5%) once the news broke.

But that will most likely be a temporary dip. Most investors understand that diluted shares are far more palatable than a bankruptcy. And if the airline manages to regain its former glory, both financially and in the stock market, thanks to the financial aid, it would be well worth it.

Foolish takeaway

Other airlines, particularly **WestJet**, are expected a similar, albeit smaller, aid package from the government. Because if the company only helps one airline and leaves others hanging, it will inadvertently be providing Air Canada with a major competitive edge. Which, on top of its already-dominant position in the local industry, would be too much for smaller airlines to compete with.

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

2021/04/21

Author

adamothonman

default watermark

default watermark