



## Air Canada Has Been Bailed Out: Now What?

### Description

**Air Canada** ([TSX:AC](#)) has been a top pick among investors looking for a reliable reopening play on the TSX.

Nevertheless, there are various concerns surrounding the stock right now. The vaccine rollout has been slower than expected in Canada. And jet fuel prices continue to rise.

That said, there are a few reasons to be optimistic with this stock today. Investors have a number of factors to consider that ought to provide such optimism over the long term. Among these, the company's recent bailout from the federal government is a key catalyst I'd argue is critical to Air Canada's success.

Now that Air Canada has been bailed out, many investors may be [wondering](#), where does this stock go from here? Let's discuss.

### Mixed opinions on the deal

Roughly a week ago, the federal government finally bailed out Montreal-based Air Canada. The deal provides approximately \$5.9 billion in relief in the form of low-interest loans and an equity injection.

As a result of the announcement, there are two lines of thinking with respect to how this impacts Air Canada's investment thesis.

Bulls will note that this deal greatly improves Air Canada's financial position. As far as the company's beaten-up balance sheet goes, this bailout was a must. Accordingly, the certainty this deal provides should be a bullish catalyst for more stock price appreciation.

Bears will note that much of the optimism around this bailout is likely already priced into Air Canada stock today. Additionally, the terms of the bailout weren't as favourable as many investors were expecting. For starters, the equity investment requires Air Canada to issue 21 million new shares at a 14% discount to the price on the date of the bailout announcement. That's not good.

Additionally, the federal government put in stipulations to resume unprofitable regional routes and safeguard Canadian jobs, moves that take away some autonomy from Air Canada's management team to cut costs further. Now, for those bullish on a full pandemic recovery, this isn't a big deal. However, for those concerned that the pandemic could rage on longer, such restrictions could have a negative effect.

## Bottom line

I'm of the belief that this bailout announcement is neither good nor bad for the stock. I do agree that most of the anticipation of the bailout package was likely already priced in. Additionally, there is some credence to the idea that this deal was onerous for Air Canada and more near-term downside could exist.

However, for bulls who believe the recovery coming out of this pandemic will be strong, Air Canada is still a great recovery pick. I'd recommend easing into such a position today for those interested in picking up Air Canada as a long-term holding.

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## Date

2025/07/01

## Date Created

2021/04/22

## Author

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