



Air Canada (TSX:AC): Strikes a \$5.9 Billion Deal with Feds

Description

One year after the official declaration of a global pandemic, the wait is over for **Air Canada** ([TSX:AC](#)). The federal government unveiled a [financial support package](#) for the beleaguered airline company. Negotiations with other airlines on possible aid agreements are ongoing.

The discussions leading to the deal were tortuous more than smooth. According to Finance Minister Chrystia Freeland, the breakthrough is overdue because the government wanted a good deal, not just any deal. Still, all is well that ends well. Freeland credits Deputy Finance Minister Michael Sabia for his role as lead negotiator.

The \$5.9 billion-dollar deal

The Air Canada package is worth \$5.9 billion, a combination of secured and unsecured credit facilities, plus a 6% equity stake for the federal government. The latter will purchase \$500 million worth of the airline stock. Some industry observers weren't surprised that the deal includes public participation in equity.

Of the total financial aid, \$4 billion is through low-interest loans (less than 1.9% interest) and \$1.4 billion loan to finance what the Finance Minister calls a "passenger voucher refund loan facility." The support will originate from the Large Employer Emergency Financing Facility (LEEFF). Big employers in Canada availed of the loan program to arrest mounting losses.

Federal package conditions

Air Canada agreed to all the conditions set forth by the federal government. The topmost caveat is the payment of customer refunds due to cancelled flights during the pandemic. The \$8.32 billion airline company commits to maintaining its workforce at

current levels (14,859 bodies), protect employees' pensions, and respect union agreements.

The deal comes with more strings attached. Air Canada must restore service on nearly all suspended regional routes by June 1, 2021. Furthermore, no executive compensation must exceed \$1 million annually. There'll be suspension of share buybacks and no shareholder dividends for the duration of the loans.

Michael Rousseau, Air Canada's new president and CEO, welcomes the government's approach. He said, "The additional liquidity program provides a significant layer of insurance for Air Canada." It should enable the airline to resolve customer refunds of non-refundable tickets better, maintain its workforce, and re-enter regional markets.

Freeland announced that any Air Canada customer of Air who wants a refund for inevitable pandemic-related cancellations would receive one. The payments of refunds will commence on or before April 30, 2021.

You could claim a refund for travel purchased on or before March 22, 2020, and travel after February 1, 2020, if the flight was cancelled by the airline or passenger. You're entitled to a refund for tickets purchased after March 22, 2020, where there was subsequent flight cancellation by Air Canada.

A win for all parties

Jerry Dias, national president of Unifor, is happy for the customers, airline employees, and taxpayers. He describes the deal as a win for all parties. Clients will get their refunds, workers will have job security, and the straight loans will not burden the taxpayers. More importantly, the federal government is a [shareholder](#).

However, Air Canada shares fell instead of climb following the announcement of a relief package. As of April 19, 2021, the stock price is \$25.14 compared to \$27 on April 12, 2021. Meanwhile, investors are up 10% year-to-date. But I don't think the latest developments will prop the stock, at least this year.

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