



Air Canada's Bailout Package: What Investors Need to Know

Description

Air Canada ([TSX:AC](#)) remains a top rebound play for investors today. Indeed, this stock has soared, relative to its March lows of last year. Investors are now pricing in a tremendous amount of optimism in this sector. Indeed, the recent bailout from the federal Canadian government helps with this thesis. Given Air Canada's dominant position in the Canadian airlines space, it's the go-to investment for many growth investors today.

Indeed, Air Canada's [bailout](#) is a big deal. The \$5.9 billion financing package is one that's still being digested by the market. Here's my take on what this deal means for investors today.

The bailout package is a big one

This \$5.9 billion bailout package consists of both low-interest loans as well as an equity investment.

Wait, what?

That's right, the Canadian government is investing roughly \$500 million of the \$5.9 billion in the form of equity. Air Canada will issue new shares at a 15% discount — a move that has caused some instability in Air Canada's stock price of late.

Additionally, the government also announced it would impose conditions on the airline. Air Canada will be required to refund passengers who had flights cancelled due to the pandemic. Furthermore, various job protection stipulations and flight resumptions are a part of the deal.

There's both upside and downside potential with Air Canada stock

This bailout is a much-needed one for Air Canada. The Canadian airline has been bleeding cash, and these low-interest loans and equity injection provide the company with balance sheet stability.

That's a great thing for investors.

However, the dilution that comes as a result of the equity investment is still being priced into Air Canada stock today. Rising fuel costs and other job-protection stipulations from the deal could hurt margins over the near term. Thus, the likelihood that we'll see profitable growth from Air Canada anytime soon seems to be reduced today.

Shares of Air Canada have been on a bumpy trajectory in recent days. Investors bullish on the airline space in general may consider these short-term price movements as buying opportunities. If you believe, as I do, that discretionary travel is poised to absolutely skyrocket coming out of this pandemic, then now is a good time to buy.

However, there's also the potential Air Canada stock could languish for some time. In this case, it may be better for investors to be patient and wait for a better entry point.

Right now, I'm on the fence with Air Canada stock.

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