



Air Canada: Great Long-Term Play, But Near-Term Question Marks Remain

Description

Many investors would agree that **Air Canada** ([TSX:AC](#)) is a stock that looks to have [solid long-term upside](#). However, near-term concerns have plagued this stock since the onset of the pandemic.

Is this stock finally poised to soar to pre-pandemic levels and beyond? Or are the near-term headwinds for this stock simply too strong? Here's what I think.

The bailout deal will provide much-needed relief

Canada's largest airline has finally secured a much-awaited bailout deal worth \$5.9 billion. This package provides both debt and equity financing for the company. Accordingly, it will de-risk Air Canada's balance sheet and enable this company to address liquidity concerns immediately. Indeed, this deal appears to be broadly bullish for investors right now.

Letko Brosseau & Associates, the largest shareholder in Canada's airline sector, thinks that Air Canada is likely to experience a tremendous amount of growth following this bailout. Indeed, the improved liquidity position of this company should provide a massive boost as far as the recovery thesis is concerned. Hence, Air Canada appears to be an excellent option for investors who are looking for a rebound play.

Nevertheless, before buying shares of Air Canada, investors must evaluate how much of this bailout deal has been factored into this stock.

There's some downside risk in the near term

Although there's ample room for optimism today, there are some concerns in the near term. Canada's government will be acquiring more than 20 million shares in the Montreal-based company for roughly \$23 each. It represents a 14% discount considering the stock's price on the day Air Canada secured the bailout. Indeed, this dilution is not bullish for existing Air Canada shareholders.

Additionally, this relief package comes with certain conditions. Bailout money is rarely ever free. Air Canada will need to abide by specific agreed-upon job security/safety measures, refund fares affected by the pandemic, as well as begin resuming certain unprofitable flights and maintaining existing aircraft orders.

These company-specific concerns are adjacent to other broader market concerns that have been creeping in of late. Canada has been much slower than most developed nations in rolling out its vaccination program. Accordingly, there's some skepticism building that travel won't go back to normal anytime soon.

Bottom line

While these risks are important to consider, I think Air Canada is ultimately positioned well today. There remains a tonne of pent-up demand for discretionary travel, and Air Canada will be a beneficiary of this boom when travel does resume at a more normal pace.

The question remains around the timing of such a return to normal for investors today.

Accordingly, I think this is a stock investors need to be patient with right now. There's no need to rush into a position in Air Canada today. Rather, building a position slowly over time may be the best route to take.

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Author

chrismacdonald

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