



## Has Air Canada Lost Its Wings Post-Bailout?

### Description

**Air Canada** ([TSX:AC](#)) has been one of the most popular reopening plays on the **TSX** for quite some time. However, it appears that there some concerns are building today around this thesis.

Specifically, investors appear concerned with the relatively slow vaccine rollout in Canada. Jet fuel prices are soaring, and the bailout deal includes some stipulations that aren't so great for investors.

That said, hope is not lost. I think the recent bailout deal is a crucial catalyst that is currently in favour of Canada's largest airline. Accordingly, here's what I think investors need to keep in mind with respect to Air Canada stock today.

### There are reasons to be optimistic

A bailout is finally here.

That's right – that bailout that has been speculated about for nearly a year has finally materialized. On April 12, Air Canada finally secured a bailout deal worth \$5.9 billion. This deal includes low interest loans and equity financing. Given the fact the Federal government was willing to stake taxpayers' money on Air Canada's equity, the stock has to go up — right?

Well, it appears that there are differing views on the bailout.

Optimists believe that the financial position of Air Canada will be greatly improved as a result of the deal. Yes, there are stipulations assigned to the money. However, no government assistance is ever free. However, balance sheet concerns are really what drove investors away from this stock in the first place. With those out of the way, perhaps Air Canada can once again soar again?

### There are some bears on Air Canada

Some may disagree on this point.

After all, Air Canada stock has already risen precipitously in recent months. Accordingly, many bears may insist that much of the optimism around a bailout is already priced in today. Indeed, that's a valid point.

Additionally, the stipulations of the bailout arrangement do appear to be onerous. Air Canada will need to play by the government's handbook when it comes to key operation decisions. Aircraft purchases, ticket reimbursements, and even route selection are now in the hands of the government. At least, to a certain degree.

For investors who like to think of Air Canada as an autonomous company, this isn't a good thing. Additionally, the dilution resulting from the equity deal with the government has been a key headwind for Air Canada stock of late.

## Bottom line

I'm of the belief that Air Canada is a relatively polarizing stock. Airlines can do that.

Bulls and bears differ in their views on this sector. I think that will always remain the case. Right now, Air Canada's trajectory really is in the eye of the beholder.

I remain on the sidelines with this stock right now, but am [generally bullish](#) on Air Canada's long-term prospects. I think this is an airline that has been undervalued for a long time, and that hasn't changed. A post-pandemic surge should help demand coming out of this pandemic. Accordingly, it's an intriguing pandemic recovery play today.

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