



Is Air Canada (TSX:AC) Too Big to Fail?

Description

When is a company “too big to fail?” It’s an important question to ask ourselves during this coronavirus crisis.

In the past, some companies have been deemed so important or interconnected that their fall could actually take the entire country’s economy down with them. Recent examples of huge bailouts were back in 2008, when many of America’s major banks received money from the U.S. government to stay afloat.

Can the same thing be said for **Air Canada** ([TSX:AC](#))(TSX:AC.B)? Right now, things aren’t looking good for any airline companies. With next to zero revenues coming, there is a high risk of bankruptcy if the crisis continues for a long time.

Does the company [deserve a bailout](#)? Let’s take a look at why they should get one, and why they shouldn’t.

The case for a bailout

If you consider just the market cap of Air Canada, the company isn’t too big to fail. It has an enterprise value of just \$5.5 billion. But if we look at it from a different perspective, Air Canada is one of the essential businesses in the country.

If there is a bailout package released by the government to reset the airline industry in the country on sure footing, Air Canada is likely to be the first in line to receive it.

And it’s not just the bailout itself. If the government orders a total air space shutdown, Air Canada and other airlines in the country can get a bit of a fighting chance.

One expert suggested a figure between \$5 and \$10 billion might be needed to bail out [the airline industry](#). But he also claimed that the exact figure would depend on how long the pandemic goes on ravaging the business.

The case against a bailout

A problem with the bailout is that currently, the government is converging all its resources in fighting the pandemic. If it goes on for longer than anticipated, the bailout might not get prioritized and not come well in time.

Air Canada is not as weak as it was in the last recession. After the major restructuring in 2013, the company became much more stable as well as flexible. It strengthened its balance sheet and made significant management changes. And, as a result, the company became one of the best growth stocks in 2019.

Right now, the company isn't exactly drowning in debt. The December 31, 2019, financial statements show \$2 billion in cash and cash equivalents and short-term investments worth \$3.8 billion.

In the last recession, air travel surged after the market stabilized a bit, and, in about two years, airlines started to see the usual amount of traffic. But we can't make an apple-to-apple comparison between a purely financial recession and a market crash driven by a pandemic.

Too big to fail

Air Canada is sitting on a hefty cash reserve and seems well prepared for a long recession. Hopefully, it doesn't have to come to a bailout. But if Air Canada is desperate and facing insolvency, it's hard to see the government letting Air Canada go bankrupt.

And that is why I believe that Air Canada is too big to fail.

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