



Why Air Canada (TSX:AC) Is a Hot Buy After the WestJet (TSX:WJA) Deal

Description

Air Canada ([TSX:AC](#)) stock has risen 25% in the past month, and more gains could be on the way.

News that **WestJet Airlines Ltd** (TSX:WJA) was being sold and going private along with Air Canada looking to buy **Transat AT Inc** (TSX:TRZ) has significantly changed the landscape of the airline industry in just a matter of weeks.

The biggest winners in all of this could prove to be Air Canada investors. Not only will investors looking for an airline stock have limited options, but with reduced competition, consumers can expect to pay more in fares and other fees. It's a loss for the travelling consumer, but for the stock and the company, it means much stronger top and bottom lines.

Demand for air travel is not going anywhere anytime soon, especially not with the economy still producing strong results. However, prices could soon start to rise now that under the new ownership, WestJet may decide to hike its fares in hopes of squeezing more profits. And Air Canada will have no reason not to match the increases as well — and indeed may even have more incentive to raise its rates if the deal with Transat goes through.

As much as both airlines may want to twist the news and convince consumers that WestJet going private and Air Canada buying Air Transat will be a good thing, it would be naive to assume that that would be the case. Normally, an investor isn't planning to buy a company for the sake of [giving back profits](#) to customers, but instead because they see an opportunity to make more by either growing revenues or cutting costs.

With a private equity organization such as Onex that boasts a 27% gross IRR on its website, there's going to be a lot of scrutiny in how to extract as much profit out of WestJet as possible.

Meanwhile, Air Canada simply has to remain competitive with the industry's main competition to be able to continue driving [sales growth](#). And the good news for the company is that the industry could get smaller and even less competitive. The big losers in all of this are likely to be consumers. Air Canada and WestJet will have opportunities to deploy more aggressive strategies in order to boost their profits,

and investors surely won't be opposed to that.

Bottom line

These are some big changes taking place in an industry that already had a limited amount of competition. Air Canada's position in the market just got even stronger, and in a script reversal, could position itself as the friendlier, publicly traded company that WestJet used to portray itself as in commercials.

Integrating with Air Transat could create an opportunity for Air Canada to generate some cost savings as the two could develop synergies and optimize travel routes. And while it might take some time to accomplish that, over the long term the benefits and returns for investors could be significant.

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