What the Latest Surge of M&A Activity in Canada's Airline Industry Means for Investors

Description

Earlier this summer, **ONEX**, a leading private equity firm, agreed to acquire Canada's second-largest publicly traded airline, **WestJet Airlines** (TSX:WJA) in a deal valued at somewhere in the neighbourhood of $5 billion.

More recently, **Air Canada** (TSX:AC)(TSX:AC.B), the country's largest publicly traded airline, announced plans of its own to take out or acquire rival discount airline Air Transat, owned by parent company **TRANSAT**, in a deal that could end up valuing the target north of $500 million.

While the Air Canada-Air Transat deal remains "far from a certainty," there's no question that the latest flurry of activity among Canada's leading airlines has certainly shaken things up for the industry at large.

So, what do investors need to expect, going forward?

One is that almost certainly the competitive positioning of both Air Canada and WestJet stand to improve, and some may argue that both companies could improve substantially going forward in terms of their respective abilities to compete with other international carriers.

If approved, the Air Canada-Air Transat deal is significant because of the overlap that currently exists between the two carriers in terms of certain key holiday destinations.

Rationalizing expenditures in that area alone could save millions for the company — although, it could also threaten to raise prices for the average Canadian holiday traveler.

Meanwhile, Onex, by taking WestJet private, may have other advantages available to it and the firm's shareholders.

While it was publicly traded, WestJet carried a significantly less-leveraged balance sheet. And that's with good reason too. In the public markets, investors often punish companies that carry more debt on their balance sheets in times of market stress or turbulence.

But now with WestJet privately owned and beyond the scrutiny of short-minded (and often erratic) investors, the experienced management team at Onex may very well take it upon themselves to responsibly add leverage to the airline's operations.

If it were to do so, there's at least some chance that WestJet could one day surpass Air Canada for top honours as Canada's largest airline.

Air Canada, meanwhile, as part of the proposed — and still pending — Air Transat acquisition, has agreed to retain at least a sizeable portion of the target's operations where they are right now in Quebec.

That may not be a deal breaker in the grand scheme of things, but, at least on a relative basis, it's a decision that would be motivated by factors other than a strict adherence to bottom-line profits.

Foolish bottom line

Of course, the "odd man out" in all of this is **Chorus Aviation** (TSX:CHR).

The proposed consolidation of Air Canada and Air Transat, along with the bolstered financial backing of a private equity firm to support WestJet's current operations, should, in theory, only weaken the smaller airline's competitive position.

CHR has enjoyed a tremendous run since 2014, shares up more than four-fold thanks in large part to sharply lower fuel prices.

However, in light of recent events and CHR's seeming inability to find itself a dance partner among all of this, one has to wonder if that awesome ride might finally be coming to an end.

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