



Why Air Canada (TSX:AC) Stock Remained Flat in August

Description

Prior to August, **Air Canada** ([TSX:AC](#))(TSX:AC.B) stock was soaring, returning 73% since the beginning of the year. Last month, however, the stock stalled. On August 1, the stock was trading at \$44.98 and finished the month at \$44.75, virtually unchanged.

What happened?

The two biggest headlines for the month were regarding takeovers of competing airlines: Air Canada's challenge of the plan to take **WestJet** private and disappointing news about Air Canada's acquisition of **Transat** (TSX:TRZ).

Transat deal may be in jeopardy

Canada's transport minister Marc Garneau recently announced that officials will carefully [review the proposed takeover of Transat](#) and will not render a decision until May. Garneau questions whether the deal is in the best interest of the public. The deal between Canada's largest and third-largest airlines would give the combined companies approximately 60% of the air travel business in Canada.

Although most analysts agree that the deal will eventually be greenlighted, the minister's comments spooked investors. The day after the announcement, Transat's stock dropped as much as 6%. Just two days later, Transat tried to pacify nervous investors by announcing that the sale had been approved by the Superior Court of Quebec.

Earlier in August, Air Canada raised its bid for Transat to \$18 per share. This move was made to fend off any unsolicited bids from Montreal real estate developer Group Mach. Although Air Canada's original bid for Transat of \$13 per share was lower than the bid of \$14 per share from Group Mach, Transat's management signed the deal with Air Canada, and it was approved by 95% of Transat's shareholders.

When Air Canada sweetened its deal for Transat on August 12, shares of Transat rose 40%.

The fact that Transat stock is now trading lower and Air Canada stock has stalled indicates that some investors aren't confident the deal will go through, despite assurances from the companies.

Challenge of WestJet deal

In May, WestJet and **Onex**, an investment management company, entered an agreement worth \$3.5 billion. In the deal, WestJet will receive \$31 per share and operate as a privately held company.

Air Canada recently launched a challenge to the deal. Air Canada alleges that the agreement violates foreign ownership rules that dictate that an airline has to be at least 51% Canadian owned. The basis of the challenge involves Onex's sources of funding and that its foreign associations violate the majority ownership rules.

Some have speculated that Air Canada raised this challenge in an effort to [gain bargaining power with transportation authorities](#) to help further the company's acquisition of Transat.

The bottom line

Air Canada is not immune to the headwinds facing the entire airline industry, especially if economic conditions deteriorate. These challenges include increasing fuel prices and various political and trade issues.

In spite of these potential threats, Air Canada CEO Calin Rovinescu shows confidence in the company: "Despite all of the backdrop of the noise that we hear about fears of a recession and the trade wars and the rest of it, we do see a fairly strong and bullish market."

Before last month, it looked like investors agreed with Rovinescu's assessment. However, given that the Transat deal may be in jeopardy, cloudy skies may be on the horizon.

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Date

2025/09/16

Date Created

2019/09/19

Author

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