



Why WestJet (TSX:WJA) Stock Rose 0% in August

Description

WestJet Airlines Ltd. (TSX:WJA) remained flat last month, even as the **S&P/TSX Composite Index** eked out a small gain. If you've been paying attention, the stock's performance shouldn't be surprising.

What happened?

On May 13, **ONEX Corporation** ([TSX:ONEX](#)) agreed to acquire WestJet for \$31 per share. At the time, the offer represented a 67% premium to the prevailing share price. In July, shareholders overwhelmingly voted to approve the buyout.

Including debt, the deal size is roughly \$5 billion. Notably, the deal may not close until 2020 due to natural complexities and the numerous stakeholders that need to be aligned. Plus, the deal is still subject to various regulatory approvals.

In August, nothing much occurred regarding the deal, causing the share price to trade in-line with the buyout offer. Throughout most of August, the stock offered a mere 0.3% in upside assuming a buyout at \$31 per share. While August was sleepy, it only took a few days into September for uncertainty to present itself.

On September 3, **Air Canada** ([TSX:AC](#))(TSX:AC.B) challenged ONEX's takeover of WestJet. The company argued to the Canadian Transportation Agency that the proposed buyout would run afoul of Canada's foreign ownership rules.

ONEX is a [private equity manager](#) that invests capital on behalf of ONEX shareholders. But the company frequently co-invests alongside other institutional investors and high net worth clients, many of which aren't domiciled in Canada, which is problematic.

According to *Reuters*, "Under Canadian rules, foreigners cannot own more than 49% equity in a Canadian airline. The rules further restrict a foreign airline and any single foreign owner from controlling more than a quarter of voting interests in a Canadian carrier."

After analyzing the deal, Air Canada believes the proposed structure violates these rules. “The uncertainty and flexibility of co-investor participation introduces significant risk that non-Canadian co-investors will have control-in-fact of WestJet following the transaction,” Air Canada argued to regulators. The ultimate conclusion is still unclear.

What to expect

Following Air Canada’s challenge, WestJet stock dropped, but not by much. Currently, there’s only 1.1% of potential upside assuming the buyout deal is executed. As the deal won’t be complete until sometime in 2020, the annualized returns on a potential investment total 3% or less.

That’s simply not enough reward for the risk you’d be taking. It’s difficult to know whether regulators will agree with Air Canada’s petition, but if they do, the acquisition could be nixed entirely. That would likely lead to 25% downside or more.

If you’re invested in WestJet today, I’d take your profits. There simply isn’t an investment case to be made at current prices.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:ONEX (Onex Corporation)

PARTNER-FEEDS

1. Business Insider
2. Msn
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