

How Air Canada's (TSX:AC) Transat Deal Is Placed Amid the Crisis

Description

It's almost been a year since **Air Canada** ([TSX:AC](#)) agreed to acquire the leisure travel company **Transat AT** (TSX:TRZ). However, the deal continues to look highly uncertain on the back of the COVID-19 crisis and issues raised by the competition councils.

Air Canada agreed to pay \$18 per share to acquire Transat last August. Notably, Transat shares have lost almost 65% so far during the COVID-19 crash this year and are now trading at \$6 apiece.

An acquisition at a taxing time

Considering the current developments for air travel, this might not be the opportune time for Air Canada to go ahead with the deal. The flag carrier is operating at some 10-15% of its capacity, which is not going to improve substantially anytime soon.

Additionally, the airline is burning cash at high speed on unavoidable operating expenses. The situation might become much more dire if the lower demand for air travel lasts longer than expected.

Notably, Transat is a much smaller company in comparison to Air Canada. It carried around five million passengers last year — almost 10% that of Air Canada. The acquisition would offer Air Canada an expansion in the holiday travel space and Transat's decent-sized fleet.

Although Air Canada has maintained its interest in Transat amid all these hostilities, regulatory approvals are creating a significant hindrance.

The Canadian Competition Bureau specified its concerns related to the deal in March, which it is afraid will lower competition. The European Commission also [opined](#) that the deal could reduce competition on 33 routes between Europe and Canada.

Air Canada-Transat: Will there be a deal?

Interestingly, the deal coming to fruition would highly benefit Transat. It has been terribly impacted by the pandemic and has limited ammunition to weather the crisis. Consecutive losses make it relatively more vulnerable among peers. The pandemic lasting longer than expected will notably hamper the leisure travel company.

At the same time, Air Canada might not be too keen on the acquisition. It has already conveyed that it is going through the "darkest period ever" and will take three years' time to normalize the air travel. Also, Transat has lost a major value since the deal announcement, and the offer looks too expensive at the moment.

More importantly, Air Canada's bigger focus would be to sustain itself longer in the current scenario. It

has been raising capital on a war footing, denting existing shareholders.

Just 10 days of lockdowns resulted in a billion-dollar loss to Air Canada in the first quarter. This gives an idea of how worse things could get in the second quarter.

[Air Canada stock](#) has been extremely volatile of late, gaining almost 35% so far this month. However, that does not seem like a lasting recovery. It is still trading 60% lower to its pre-pandemic levels.

So, in a nutshell, a “go-ahead” from the competition commissions will clear a big hurdle for the deal. Meanwhile, the country’s biggest airline is grappled with a number of challenges, and the recovery will likely take time.

Importantly, a faster-than-expected vaccine launch could notably improve things for the entire airline industry. Also, Air Canada’s leading market share, scale, and operational efficiencies will help it emerge stronger through the crisis.

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