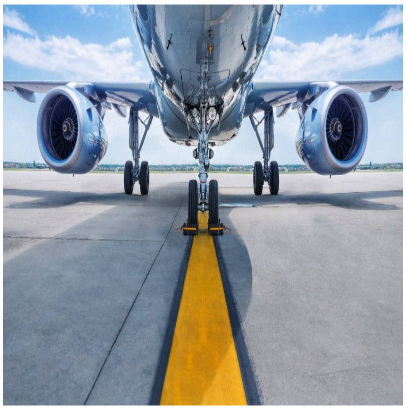

After Air Canada and Chorus, Transat AT Demands Federal Support

Description

Transat A.T.'s (TSX:TRZ) third-quarter earnings pertinently show how vulnerable small airlines are to the pandemic shock. It is a $137 million airline company in Canada that operates in tourism, holiday packages, and air travel.

Transat's revenues evaporated

The airline reported a massive fall of 98.6% in its quarterly revenues, as most of its fleet remained grounded. It posted an adjusted loss of $3.7 per share for the quarter ended July 31, compared to a profit of $0.16 per share in the same period last year. Transat stock has lost almost 70% so far this year.

Transat is still waiting for regulatory approvals for merging with the country's biggest airline, **Air Canada** (TSX:AC). Interestingly, the smaller airline is in a terrible shape amid the virus outbreak, and its long-pending merger going through will be a big relief.

However, Air Canada might be having second thoughts about it, as the pandemic has changed the aviation industry upside down. Air Canada agreed to pay $18 per share to acquire Transat last August. Transat shares are currently trading below $5.

Air Canada's long-pending Transat merger

Air Canada is also struggling badly in this unprecedented crisis and has burnt significant cash. It has already lost around $2.8 billion in the first half of 2020.

It might choose to retain cash to survive longer amid the disaster instead of spending it on an embattled airline — especially when air travel demand is not expected to recover anytime soon. Transat expects the deal to be completed in the fourth quarter of 2020.

Transat management said that the company is ready for recovery, but the Canadian government's stringent border restrictions hamper its efforts. Canada's travel restrictions were expected to ease in August; however, the authorities further extended them till September 30. That means airlines have to keep their fleet grounded for longer and continue burning cash.

Transat also said, "it's time for the government to provide targeted support for the airline sector to ensure the existence of a competitive industry in Canada over the long term."

Chorus Aviation (TSX:CHR) also followed similar rhetoric last month and said, "Unlike other countries, Canada has not provided sector support to the aviation industry."

Interestingly, Chorus has fared relatively better compared to peers. It has reported an adjusted net income of $45 million in the first half of 2020. However, that could not improve its stock price, and its shares have lost more than 65% year to date. In comparison, Air Canada stock has also lost approximately 65% so far this year.

Bottom line

Investors should note that prolonged pandemic and travel restrictions might force smaller Canadian airlines to close down. Smaller airlines will have limited avenues to raise capital, particularly in these perilous times.

Even if they don't get federal support, easing travel restrictions would also play a big role in their recovery. However, at the moment, uncertainties regarding its merger with Air Canada and a lack of government support place Transat AT in a more vulnerable position.

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