



This Company's Revenues Are Down a Mind-Boggling 98.6%

Description

The TSX is recovering. It's slow, especially when you compare it to the recovery pace right after the crash. The fear of a second crash is still there. The disparity between the economy and the stock market makes many investors think that the current recovery is just a temporary reprieve. The true recovery would be far slower. Still, most people are optimistic about a recovery.

One thing that taints this budding optimism is quarterly results. These results paint a relatively truer picture of how devastating the pandemic has been for businesses. The decimated earnings fuel the notion that it might take at least a couple more quarters for many companies to regain their pre-pandemic earnings.

But even two more quarters seem too early for true recovery of some companies, and one such company is **Transat A.T.** (TSX:TRZ).

Dismal third-quarter results

It hasn't been a good year for airlines. The demand for flying almost dried up, and still, when people have learned to live with the pandemic to a certain degree, most people are still avoiding flights unless absolutely necessary. In Canada, the condition has been worse, thanks mostly to the government's stringent travel restrictions (that's the perspective of most airline operators).

Transat's dismal third-quarter earnings endorse the fact that airlines have been the most impacted businesses in the pandemic. The company only brought in 1.36% of the revenue it brought in the third quarter last year. The 98.6% revenue loss is the result of the company being non-operational for the bulk of the quarter.

The net loss is \$132 million, which is in line with the airline's statement about daily bleeding out \$1.7 million in cash. Thankfully, it still has over \$564 million in cash (and cash equivalents). But that's just enough to survive for two or three quarters at max if the revenue stream stays dry.

The future of Transat

[Transat's future](#) is tied quite strongly with the future of **Air Canada**, since the country's largest airline is in the process of acquiring Transat. This "takeover" is currently hindering Transat's ability to secure financing. It's difficult to predict whether Air Canada's and Transat will be a happy union, because currently, both airlines are suffering from the same issues and seeking/awaiting government aid.

When Air Canada takes over Transat, it will solidify its dominance. But if the demand for air travel stays low for a long time, Transat might become more of a liability for the company than an asset. Still, with companies revenue where they are now, Transat might be [in worse shape](#) if Air Canada doesn't acquire it.

Foolish takeaway

Transat's stock has been experiencing a steady decline since mid-May, and the current announcement hasn't caused a significant dip in the price, yet. It might be because the stock is already too beat-up to go down any further. If you are considering buying into the company, you should look into Air Canada as well. The safer bet might be to stay clear of the sector.

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