



What Does Air Canada's (TSX:AC) Renewed Offer to Buy Transat (TSX:TRZ) Mean?

Description

On Saturday, **Air Canada** ([TSX:AC](#)) proposed a new offer to acquire the embattled holiday travel company **Transat A.T.** (TSX:TRZ). The country's biggest airline has [offered](#) \$5 per share to buy Transat under the new terms, 72% lower than its earlier offer last August. Notably, the renewed offer should stop the buzz that cast doubts on whether Air Canada was interested in buying Transat due to COVID-19.

What's next for the long-pending Air Canada-Transat deal?

The new purchase price is still a premium for Transat against its Friday's closing price of \$3.83 per share. Transat's second-quarter earnings depicted how badly the pandemic has dented the vacation travel specialist.

The management expressed struggles to operate under Canada's stringent travel restrictions and demanded federal aid. Notably, the situation will become direr for Transat if the Air Canada deal fails amid the prolonged pandemic.

The Air Canada-Transat deal is expected to complete by early next year. However, the pending approval from competition authorities will play a crucial role. Competition authorities are arguing that the deal would give Air Canada a dominating share of the transatlantic air travel, which will dent competition.

That might be true in the pre-pandemic scenario, but how things stand post-pandemic needs to be seen. Airlines might not be able to function with similar capacities that they were for years before the pandemic.

Win-win for both?

Transat is much smaller than Air Canada. It carried nearly five million passengers last year — roughly

10% that of Air Canada. The purchase would offer AC an increase in the holiday travel space and Transat's fair-sized fleet.

The deal, especially now with the discounted price, could reap significant benefits for AC in the post-pandemic environment.

Notably, the renewed offer indicates Air Canada is still financially well placed, and survival is not a concern for it. Some naysayers were contemplating Air Canada's bankruptcy earlier in the COVID-19 crisis. However, the airline has enough cash to survive a prolonged pandemic.

The travel restrictions are hampering the flag carrier badly too, but it has more ammo to weather the disaster compared to smaller airlines.

Industry consolidation in the aviation space

This could only be the start of the consolidation in the global aviation space. The slower recovery, particularly with the air travel, might leave weak players in a more vulnerable position amid the crisis. Thus, we might see more of such deals taking place post-crisis.

AC stock has lost more than 65% so far this year. Declining earnings, slower recovery, and a consistent cash burn might continue to pressure airline stock in the short term. Transat shares, in comparison, have fallen more than 75% so far in 2020, and are currently trading at eight-year lows.

Air Canada is already among the strongest names in the global airline industry. Thanks to the management that followed financial discipline so that the company has enough emergency cash to ply during some of the worst times.

Notably, a leading market share, operational efficiency and an expected Transat accretion should fuel [Air Canada's recovery post-pandemic](#).

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