



Revised Offer from Air Canada (TSX:AC) Sends Transat Shares 26% Higher

Description

Shares of **Transat A.T.** (TSX:TRZ) rose more than 26% on October 13 on increased odds of its merger going through. **Air Canada** ([TSX:AC](#)), the country's biggest airline, revised its offer to buy Transat at \$5 per share over the weekend. Notably, the modified price is 72% lower than its previous offer of \$18 per share in August 2019.

Air Canada-Transat deal

Even if the revised price is substantially lower, it seems like the merger is the only option for the embattled company. Transat's revenues evaporated almost entirely in the second quarter of 2020 amid Canada's stringent travel restrictions. It has already laid off a sizable chunk of its workforce and is afraid of more of such measures to remain afloat.

[Kudos to Air Canada management](#) that waited for months and hurled the new offer close to Transat's all-time lows.

Transat shares have fallen almost 70% so far this year. So, the recent surge must have soothed investors to some extent. In comparison, Air Canada stock has been largely trading in a narrow range for the last six months. It has lost more than 60% so far in 2020 and seems to be taking the support of \$15-\$16 levels.

Transat shares witnessed a huge trading volume surge Tuesday after the flag carrier suggested that it is still interested in the purchase. More than 2.4 million Transat shares exchanged hands yesterday against its three-month average volume of close to 140,000.

Will the competition commission play spoilsport?

Notably, the pandemic or the bargain offer from Air Canada is not a hindrance to the merger completion. However, the bigger obstacle is the approval of the competition authorities. Competition commissions are claiming that the transaction would give Air Canada a dominating share of the

transatlantic air travel, which will diminish competition.

The final verdict from the competition authorities is expected to come by December this year or early 2021. However, parties expect the deal to close by February 15, 2021.

The renewed offer is indeed a positive sign for Air Canada investors as well. The airline has been bleeding for the last seven months amid the pandemic and ensuing travel curbs. However, its interest in buying Transat signifies that Air Canada is still financially sound, and survival is not a concern.

Air Canada will report its third-quarter earnings early next month. It has already [lost](#) around \$3 billion so far this year. The upcoming quarterly earnings are also expected to fall on similar lines on the back of the travel curb extensions. As economies re-open, air travel restrictions will ease in the short term, lowering the airlines' financial burden.

The final thoughts

If the deal goes through, the synergy benefits might not be notably visible in the short term. But over the long term, Air Canada will extend its presence in the vacation travel and might reap significant benefits with Transat's decently sized fleet. Importantly, the deal, especially with the revised offer, looks extremely lucrative for the flag carrier.

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