



Why Air Canada Stock (TSX:AC) Will Be a Scorching Hot Buy

Description

Air Canada ([TSX:AC](#)) is struggling this year as COVID-19 keeps travel numbers low. When the airline released its second-quarter earnings for the period up until the end of June, it looked like someone forgot to add a zero behind the numbers. Revenue of \$527 million was down 89% from the \$4.7 billion that the company reported in the same period last year. The one number that looked to be too big was its net loss of \$1.8 billion, which was mammoth in comparison to the \$343 million profit Air Canada reported in the prior-year period.

However, despite all its troubles, the company is still looking ahead. This week, Air Canada announced it was planning to acquire **Transat A.T. Inc.** (TSX:TRZ). The company was looking to acquire Transat over a year ago, around the time [rival WestJet announced it would be going private](#). This time around, Air Canada's looking to buy Transat but at just \$5 per share compared to the \$18 it was willing to pay last year.

It would be a brilliant move on Air Canada's part to take advantage of depressed stock prices and acquire Transat's assets for a significant discount. The deal would position Air Canada to dominate the industry once travel returns back to pre-pandemic levels — the International Air Transport Association estimates that it won't be until 2024 traveler numbers get back to where they were before the coronavirus hit.

But, it's still not a done deal

As terrific as the news could be for Air Canada investors, it's still not final. One of the reasons it was doubtful the deal would have gone through a year ago was that it would reduce competition in the industry. Not only does the Competition Bureau still need to give the okay to the deal, but so too do Transat's shareholders.

While it's not guaranteed, it may have [better odds than it did a year ago](#) when the industry wasn't struggling. In its most recent earnings results, Transat burned through \$145.4 million in cash from its day-to-day operating activities during a three-month period. Its unrestricted cash and cash equivalents

of \$576.4 million appears to be enough to handle the storm for the near future but it won't be any easier for it to get through the pandemic than it will be for Air Canada, which has more resources at its disposal.

Bottom line

Air Canada is too big to fail, and the acquisition of Transat would only make it bigger. Even if it means there will be less competition in the industry, allowing the deal may make the most sense for the industry given these difficult times. The move would be a shrewd one by Air Canada that could potentially set up its shareholders for significant returns a few years from now when hopefully things get back to where they were before the pandemic.

There's still some risk here for investors, but the economy needs the airline industry to succeed, which is why it's unlikely Air Canada doesn't come out of this pandemic intact. With more than \$5 billion in cash and cash equivalents on its books, Air Canada's still in a strong financial position today and is a good bet to recover.

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