



## Is Air Canada (TSX:AC) Behind Chorus Aviation's (TSX:CHR) Recent Surge?

### Description

The industry consolidation in the domestic aviation space just seems to have started. Underlining the pandemic's dreadful impact on the industry include **Air Canada's** ([TSX:AC](#)) renewed offer to buy **Transat A.T.** and **Chorus Aviation** ([TSX:CHR](#)) attracting an acquirer. Interestingly, we might see more such deals in the global aviation sphere amid the pandemic.

### Chorus Aviation amid the pandemic

On Friday, Chorus [confirmed](#) that it has received a non-binding purchase offer, but there is no assurance that the transaction will occur. Shares of Chorus Aviation soared to a four-month high with a 34% intraday surge. Shares are currently trading at \$3.2 — still 60% lower than their pre-pandemic levels.

There was an immense surge in trading activity in Chorus shares on Friday. More than 4.7 million shares exchanged hands during the day against its three-month daily average volume of 750,000.

A \$500 million Chorus Aviation is undoubtedly one of the best bargain offers in the Canadian aviation space. Notably, its unique business model and fixed cash flow bode well amid uncertainties. Chorus provides services like contract flying, charter fleet, and airline operations and maintenance, etc.

It has been relatively well placed amid the pandemic, mainly because of its business model. It reported total revenues of \$184,214 in the second quarter of 2020 — a drop of just 45% compared to Q2 2019. In comparison, the country's biggest airline Air Canada's revenues plunged 88%, while Transat's revenues evaporated almost entirely during Q2 2020.

### Air Canada and Chorus Aviation

Chorus Aviation has not yet revealed who is the interested party and what terms it has brought to the table. It could be a financial institution rather than a strategic buyer, as the entire aviation industry is grappling with grave challenges. Survival is a bigger concern for them right now instead of planning for

post-pandemic growth.

However, Air Canada, Chorus's biggest customer, is in [much better financial shape to weather the crisis](#). The deal will likely provide a valuable vertical integration for Air Canada, which could reap significant benefits in the post-pandemic world.

Interestingly, the flag carrier made a renewed offer to buy Transat this month, which was 72% lower than its earlier offer in August 2019. To be precise, if the Transat-Air Canada deal is completed, the latter will save approximately \$520 million due to the bargain offer. Also, Air Canada has plenty of liquidity to get going for months, even with near-zero operations.

## Financials

However, Chorus Aviation's large debt pile could be a concern for the buyer. At the end of the second quarter of 2020, it had a total debt of more than \$2 billion. Its debt-to-equity ratio comes beyond three times. A higher debt-to-equity ratio is risky and indicates that a large chunk of its growth has come from debt.

Air Canada will report its third-quarter earnings on November 9. Apart from its bottom line, how the management sees its path for the next couple of quarters will be interesting to see. The easing of travel restrictions could restart the airline's operations, which will ultimately lower the financial burden to some extent.

Canadian airline stocks, including Air Canada and Chorus, are trading close to their multi-year lows amid the crisis. Certainly, there are a lot of uncertainties in the short term in the aviation space. However, this is the time for investors to bet on the long-term recovery of the sector's leader.

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