



## Air Canada (TSX:AC) Deal Remains the Only Hope for Transat (TSX:TRZ)

### Description

Canada's holiday travel specialist **Transat A.T.** (TSX:TRZ) could be on the verge of collapse amid the pandemic. Its recently released fourth-quarter earnings underline the damage and depict a gloomy outlook for its future.

### Transat reports yet another weak quarter

Transat [reported](#) a 98% decline in its revenues in the last two quarters compared to the same period last year. It has already lost almost \$500 million so far this year. With so much financial burden amid the ongoing uncertainties, Transat's fate lies in **Air Canada** ([TSX:AC](#)) deal.

Now the ball is in regulators' court. They will have the final say about the deal. The competition commission stated that the combination of Air Canada and Transat would hamper competition and ultimately consumers. However, Transat is confident that the deal could complete by February 15.

If the regulators disapprove of the merger, the \$200 million Transat could be in big trouble. The company conveyed its concerns of becoming cash flow positive for the next 12 months in case of no deal. It has to hinge on the \$500 million financings if regulators do not give a green signal.

Meanwhile, Air Canada made the most of this opportunity and tried to grab the distressed Transat at an insanely economical price. It [revised](#) the Transat purchase offer from \$18 in August last year to \$5 in October 2020. That's a deep 72% discount.

### Air Canada-Transat a win-win deal

Interestingly, the deal completion is a win-win for both Air Canada and Transat. The country's biggest passenger airline Air Canada will get access to Transat's decently sized fleet. It will also get to expand in the high-margin leisure travel segment.

The flag carrier will likely gain big with this transaction in the next few years.

As travel and discretionary spending normalized post-pandemic, this low-cost investment of Air Canada should reap significant benefits. At the same time, if the deal comes to fruition, Transat will continue operating without having to look for last-resort high-interest credit facilities.

Transat stock plunged more than 8% yesterday after the management expressed concerns about the company. Importantly, the stock is still trading at a premium against Air Canada's purchase price.

Air Canada stock has soared almost 80% since November, but it is still 50% lower than its pre-pandemic levels. Transat stock has fallen more than 65% during the pandemic so far in 2020.

Apart from the Air Canada deal going through, a government bailout package will also likely support Transat. It urged the authorities in September to seek a sector-specific financial aid. However, we have not seen any developments on that front yet.

## The Foolish takeaway

In 2020, the pandemic has changed the face of the global aviation sector altogether. The mighty will become mightier while weaker players will either get acquired or will perish. While the Air Canada-Transat deal is just a start of the industry consolidation, we might see more of such deals going into 2021.

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