



Canada Approves Transat Deal: Time to Buy Air Canada (TSX:AC) Stock?

Description

On Friday, **Air Canada** ([TSX:AC](#)) — the largest Canadian airline — reported its largest annual loss in over a decade of \$4.2 billion for the year 2020. The company announced its [disappointing results](#) a day after the Canadian government finally [approved](#) its bid to acquire the Montreal-based tour operator **Transat A.T.** (TSX:TRZ) — the company of popular Canadian leisure airline Air Transat.

Let's take a closer look at some details of the deal and find out whether the Air Canada-Transat deal will make Air Canada stock worth buying.

Air Canada-Transat deal

Air Canada has been making efforts to buy Transat since May 2019. But the great news for Air Canada investors is that the company is currently getting a huge discount on the price it initially was willing to pay for Transat purchase. The Transat acquisition is likely to cost Air Canada only around \$190 million — which is nearly 64% less than its initial purchase offer of around \$520 million in 2019.

The current agreement between Air Canada and Transat was signed on October 9, 2020, and expires today on February 15. However, Transat expects the agreement to remain in effect even after this deadline — unless it or Air Canada wants to terminate it.

Another major approval needed for the Air Canada-Transat deal is from the European Commission. The European authority's decision on the deal could come anytime in the first half of 2021.

WestJet doesn't like the deal

While the investors of Air Canada and Transat seemingly welcomed the Canadian authority's approval on the deal, rival WestJet Airlines seemingly didn't like the development at all. On Friday, the shares of Air Canada and Transat rose by 5.3% and 13.1%, respectively.

WestJet is the second-largest Canadian airline after Air Canada. In a press release on Friday,

WestJet's CEO Ed Sims [suggested](#) that the deal would lead to fewer choices, higher fares, and a decrease in service for Canadians. WestJet had been urging the Canadian government to reject the deal for the last few weeks.

Is it time to buy Air Canada stock?

In February, Air Canada stock has been largely trading on a positive note. The stock is up by 11.5% for the month, but it's still trading in negative territory on a year-to-date basis. Air Canada is apparently getting a big bargain on Transat purchase deal. But the deal may not lead to a significant financial recovery for Air Canada in the coming quarters.

From yesterday, Air Transat has suspended all its operations until April 30. If the deal is finalized before April 30, Air Canada would immediately require more funds to manage Air Transat operations before it can be on the long-term recovery path.

The Transat purchase could result in a big advantage for Air Canada in the long term. But it all depends on how well the largest Canadian airline manages Transat operations and utilizes the opportunities in the leisure travel sector. For the time being, even the leisure travel industry is facing financial troubles and uncertainties amid weak demand.

That's why the Air Canada-Transat deal won't make Air Canada stock look great for short- to medium-term investors. However, long-term investors with a good risk appetite may consider buying its stock if the deal gets all required regulatory approvals.

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