



## Breaking News: Air Canada Drops Deal for Air Transat

### Description

On Friday, **Air Canada** ([TSX:AC](#)) announced it was dropping its takeover bid for **Air Transat**. Indeed, this move was an unexpected one — and one I believe is likely to cause volatility in the company's stock moving forward.

Why?

Well, I've talked at length about why I believe [this deal](#) has played an integral role in the bullish thesis underpinning this post-pandemic recovery play. The deal would have cemented Air Canada's position in the leisure travel market. Accordingly, this deal would have provided additional leverage to the recovery investors seem so optimistic about right now.

That said, it appears this deal is dead right now. Let's dive into what happened, and what this means for shareholders.

## European regulatory headwinds too strong for Air Canada

Air Canada cited the key reason the deal for Air Transat was dropped was due to regulatory headwinds out of Europe.

Essentially, the company wasn't able to convince European regulators the deal would be in the best interests of the public. The European Commission stated that the merger would have increased fares and resulted in reduced choice for the public.

The fact that Canadian regulators seemed willing to approve the deal didn't dissuade E.U. regulators. In fact, the E.U.'s point of view is that coming out of this pandemic, the industry "should remain dynamic and competitive." Thus, the Commission noted it wouldn't be relaxing its conditions on the basis of the pandemic.

Air Canada did reportedly offer some significant remedies to satisfy E.U. regulators. However, after negotiations, it appeared the remedies E.U. regulators were looking for were too far-reaching for Air

Canada's management team to accept.

With the \$200 million deal off the table, let's discuss what this means for Air Canada shareholders.

## Airline recovery thesis still strong

I think shareholders can look at this failed takeover two different ways.

On the one hand, it's certainly disappointing the deal fell through. It appeared Air Canada had all but locked up a bargain, considering the discount it received to its initial offer price. With optimism around an economic reopening higher than ever, this disappointment is amplified.

On the other hand, Air Canada's path to growth coming out of this pandemic is simplified. The airline can focus on ramping up its internal capacity. Logistical elements of the combination won't be a distraction to the company's growth prospects over the near- to medium-term.

Indeed, I think there's still likely to be strong support for the recovery in the airline sector for some time. This may result in a bump in the road for Air Canada shareholders. Thus, for those on the sidelines looking to add a position, being patient right now may make sense. However, for investors who bought Air Canada stock a year ago, the company looks to be a decent hold right now.

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