



Air Canada (TSX:AC) Cancels Transat Takeover: Now What?

Description

Air Canada ([TSX:AC](#)) has ended its pursuit to buy **Transat AT** (TSX:TRZ). The news sent Air Canada stock up more than 3%, while Transat shares initially dropped more than 20% on the news.

Why did Air Canada's stock price rise?

Investors appear relieved that Air Canada isn't going ahead with the purchase of the Canadian vacation company that is popular for its package deals. Air Canada originally agreed to pay \$18 per share in June 2019, but the arrival of the pandemic before the deal closed changed the situation.

Air Canada renegotiated the price to \$5 last year, giving Transat a valuation of about \$200 million. This looked like a great deal, especially if COVID-19 vaccination programs get to the point where Canada and Transat's key destinations remove travel restrictions by the end of the year.

The return of the business traveler is a wild card for Air Canada, so the bet on vacation travellers made sense. Once people can go on holiday again, it is possible there will be a boom in holiday bookings.

It appears the market was concerned Air Canada would have too much on its plate by trying to integrate Transat while battling to get back on its feet.

Why did Air Canada end the Transat deal?

Air Canada ran into trouble with the European Commission (EC). The EC will not approve the deal based on competition concerns. It says the combination of Air Canada and Transat would reduce options and drive up prices for flights between Canada and EU countries.

Air Canada said it had provided a "significant package of remedies" to try to get the EC's blessing, but these were not enough to get the deal approved.

What's next for Air Transat?

Quebec-based Air Transat could seek out government aid to remain independent. The company might also enter discussions with other potential buyers. Transat caters heavily to the Quebec travel market, and there is interest in the province to buy the company. Pierre Peladeau, who runs **Quebecor**, a media and communications company, previously offered \$5 per share.

He might get a new chance to buy Transat.

Transat has previously said it would need \$500 million in financing if the Air Canada deal didn't get approved. If Transat is going to stay independent, the firm will need to find the funds quickly.

Keeping Transat operational and based in Quebec will be important for both the provincial and federal governments, so it is likely a rescue of one form or another will emerge.

Should you buy Transat stock today?

The stock trades near \$4.50 per share at the time of writing compared to \$5.50 before the news. Another deal at \$5 could certainly still get done, so there is a chance for investors to pick up a nice profit on the difference.

Otherwise, Transat traded for \$16 before the pandemic. At the current level, the stock might appear [undervalued](#). If the company secures adequate financing to get it through the rest of the pandemic, the share price could take off on the hopes of a strong rebound in vacation travel next year.

Risks remain, but contrarian investors might want to take a small stake in Transat stock at this level.

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