



## Air Canada: Blue Skies or Turbulence Ahead?

### Description

For quite some time, **Air Canada** ([TSX:AC](#)) has been a popular reopening play among investors. However, on Friday, Canada's largest airline announced that the **Air Transat** deal would not be going through.

Indeed, I've been quite surprised as to how Air Canada's stock has [responded](#) from Friday's announcement. In recent trading days, Air Canada stock has shot 5% higher at the time of writing.

That's not bad.

Indeed, concerns that the company's growth thesis coming out of this pandemic could be impacted was a concern for me. That said, it appears the market remains bullish on Air Canada's core business. After all, this deal was small to begin with.

That said, let's look at what investors are weighing following this announcement.

### A key growth catalyst is gone

The fact that European regulators nixed this deal surprised me. After all, the deal had received approval from Canadian authorities.

However, it appears Air Canada was unable to convince the E.U. that this takeover would be beneficial for travellers. The E.U.'s view was that this deal would be detrimental to ticket prices and have the potential to disrupt consumer choice.

European regulators also stated that they wanted the airline sector to remain a competitive one post-pandemic. In other words, they didn't want airlines using the pandemic as an excuse to squeeze a deal through. That makes sense.

At the end of the day, Air Canada and the E.U. mutually parted ways. Air Canada note that the remedies it would have had to accept would have been more onerous than the \$12.5 million

termination fee it has to pay as a result of the deal falling through.

Accordingly, many investors bullish on the growth the Air Transat deal would have provided Air Canada may feel let down. After all, many investors remain bullish on a revival in leisure travel due to massive pent-up demand.

However, the market has responded positively to the announcement, seemingly viewing this announcement as a “non-news” issue.

## A rebound in travel is the primary focus of investors

While this deal may have ultimately been a small setback, it appears investors are keeping their eyes on the bigger prize.

Travel will resume (and hopefully soon). Mass vaccine rollouts are leading to expectations travel restrictions will be lifted. Indeed, it appears Air Canada is still in a very good position to benefit from this demand surge when it materializes. The company will focus on increasing capacity, and investors will once again be able to assess the stock on the basis of its fundamentals.

That said, risks *do* remain with this stock. There’s reason to be cautious with any rebound play today. If the economic reopening slows, or new shutdowns emerge, this trade could turn sideways quick.

Whether turbulence is on the horizon remains an unknown, but investors seem to be pricing in some blue skies ahead. We’ll have to wait and see how this story is ultimately written.

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