



Air Canada (TSX:AC) Merger Failed: What's Next for Air Canada?

Description

Air Canada ([TSX:AC](#)) and **Transat AT** (TSX:TRZ) were in the middle of a takeover deal that would see the Canadian flag carrier would buy out Transat. Unfortunately, the two-year-old agreement came to an end recently as the European competition council rejected the proposed takeover.

I will discuss the impact of this deal's failure and what it could mean for the two companies.

European regulators nixed the deal

The Air Canada and Transat merger played a major role in the [bullish sentiment](#) for the post-pandemic recovery play. The deal would have cemented Air Canada's position in the leisure travel market, offering recovery investors additional leverage to be optimistic. However, European regulators believed that the deal would not be in the best interests of the public.

The European competition council rejected the deal, citing concerns over lowering competition as the primary reason. The European Commission stated that the merger would effectively increase fares and result in a reduced choice for the public.

Canadian regulators were willing to move forward with the deal, but EU regulators maintain that the industry should remain dynamic and competitive after the pandemic.

Despite Air Canada's best attempts to offer remedies that would satisfy EU regulators, the negotiations failed. The \$200 million deal going off the table could have a significant impact on both companies.

Challenges increase for Transat

The rejected deal places Transat in an even tougher position. The company reported a 94% decline in revenues and \$60 million in losses when it released its Q1 2021 earnings report. Transat has been burning cash rapidly with zero signs of its operations reviving. The management already stated that it is not possible to operate during ongoing restrictions caused by the pandemic.

Air Canada will have to shell out a \$12.5 million fee to Transat to terminate the deal. It might seem like a huge loss for Air Canada, but the deal was more important to Transat. The company will likely need to look for another buyer or new funding sources.

What does this mean for Air Canada?

Air Canada is in a much better position than Transat. It is disappointing that the deal did not pull through, but the airline still has the government bailout to look forward to as positive news. Air Canada can focus on ramping up its internal capacity to prepare for the post-pandemic era.

Faster vaccinations could also play a crucial role for the airline. It could help revive air travel demand much sooner than expected, allowing airlines like Air Canada to lower cash burn. Air Canada stock has almost doubled in the last six months. Air Canada's disciplined cost management has played out better than expected during the pandemic.

Foolish takeaway

With the deal no longer going ahead, Air Canada's growth plans will likely become more organic rather than acquisition-centric. The crisis could still be an opportunity as Air Canada could focus on more clarity regarding its operations after the pandemic ends. Transat might not have a bright future unless the company can figure out how to get out of the tight spot.

Investors waiting on the sidelines looking to add a position might want to remain patient to see if there are any more speed bumps for Air Canada in the coming months. Investors with established positions in the airline might want to consider holding onto the stock and wait for better news.

Air Canada seems like it could be a decent long-term investment for your portfolio right now, but it remains to be seen if it is a [millionaire-maker stock](#).

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Date

2025/08/27

Date Created

2021/04/08

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