



How Will 2021 Unfold for Transat A.T. After Its Adios with Air Canada?

Description

Transat A.T. (TSX:TRZ) is living its worst nightmare. **Air Canada** ([TSX:AC](#)) backed out from the deal to acquire the international tour operator for \$5 per share. Both Air Canada and Transat [bid adios](#) to their acquisition deal after the European regulators delayed its approval, pending since February 15. While the transaction did not impact AC much, it was a lifesaver for Transat. Hence, Transat's share fell 17% just after they called it quits. The question is what lies ahead for the tour operator?

What did Air Canada deal mean to Transat?

In its fiscal 2021 first-quarter earnings, Transat said, "As at January 31, 2021, there exists material uncertainty that may cast significant doubt on the Corporation's ability to continue as a going concern." What does this sentence mean? As of January 31, Transat had \$302.8 million in cash reserve and a liability of \$573.6 million in the form of customer deposits. Transat doesn't have enough cash to repay these deposits.

Had the acquisition gone through, Air Canada would have assumed this \$573 million liability and paid the latter \$190 million for the acquisition. Transat used AC's acquisition arrangement to secure a \$250 million subordinated short-term credit facility with March 31 maturity. In the light of the new developments, Transat has extended the maturity to June 30. It needs \$500 million this year to meet its debt obligation and continue as a going concern.

With the Air Canada deal off the table, all Transat is left with is a \$10 million termination fee from the airline. Looking at the do-or-die situation of Transat, AC has waived its entitlement for a \$10 million termination fee. AC could have received this fee if Transat gets acquired by a third party in 12 months following termination of their agreement.

How will 2021 unfold for Transat?

After Air Canada, Transat has few options at its disposal:

- Develop a recovery plan and secure long-term financing for the same.
- Find another buyer for its business.
- in the worst-case scenario, file for bankruptcy.

Transat is in talks with aircraft lessors and banks. It is trying to extend the maturity of its \$250 million credit facility maturing in June. But remember, it received flexible financing because it was going to become a part of AC. Now that Transat has lost its AC edge, it will have difficulty securing finance.

Transat received an acquisition offer from investment company Gestion MTRHP CEO Pierre Karl Péladeau last year. But it did not accept the offer over AC's offer because the Gestion proposal lacked binding, fully committed financing. This means Gestion did not have sufficient cash reserves to run Transat.

Even WestJet opposed the AC-Transat deal as it would give AC control of 60% of transatlantic and sun destinations routes. This was the very reason European Commission was unwilling to approve the deal. WestJet has no intention to acquire Transat. But it doesn't want Transat to go in AC's hands either.

If Transat fails to find an acquirer or secure \$500 million in the financing, it could cease to be a going concern. Its shares could dip to \$0. With fears of the third wave of pandemic looming, the future of Transat looks bleak. Whereas, AC still has a chance at survival.

The bottom line

In these uncertain times, investing in airlines is like a gamble. There are some high-growth [tech stocks](#) that have a better chance at the future.

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Date

2025/06/29

Date Created

2021/04/09

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