



## Transat Stock: Should Investors Call Mayday?

### Description

**Transat A.T.** (TSX:TRZ), better known as Air Transat, recently announced its government aid package. While there was an initial bump from the positive news, it didn't last very long. Let's dig into what's going on with Transat stock.

### Transat stock's aid package

On the heels of other aid packages, Transat finally announced its [aid package](#) from the federal government at the end of April. This aid package aims to help the company get through the remainder of the pandemic and help customers with cancelled flights due to COVID-19.

Optimism was high for most airlines before now. The announcement of a vaccine and future roll out had airline management believing that we could soon see planes back in the air. Unfortunately, COVID-19 variants put a damper on this, and the government renewed travel restrictions. Add to that delayed shipment of vaccines and poor rollouts, and those hopes collapsed in 2021.

So, while the future is still fairly uncertain for the airline industry, there was positive news when Transat stock announced a \$700 million aid package from the Large Employer Emergency Financing Facility. While \$390 million will be used to keep the business afloat, there remains \$310 million. This part of the loan is payable over seven years, at 1.2%, and will help cover the ticket refunds. However, the \$390 million is set at a 4.5% interest rate and could rise to as high as 6% should the company need all options available.

### Not without conditions

With the new COVID-19 variant, Transat stock really didn't have much of a bargaining position. The company continues to burn through cash, increasing its debt to \$903 million recently. That's a 36% increase since before COVID-19 started affecting air travel. With the company desperate to stay afloat, it means it's likely signed onto agreements it wouldn't have considered before.

Some of the conditions include a \$1 million ceiling on executive compensation, for as long as it takes to repay the remaining refunds. It also means a minimum of 772 active employees, which is well below the pre-pandemic levels of its workforce of 5,200.

The company must also resume flights by no later than late June, which sounds good but some were being held back to reserve cash. This could extend the company's finances further, with flights in the air that aren't fully sold.

This deal is also tied to the issuing of 13 million warrants for the right to purchase Transat stock at \$4.50 per share. This would be up to a maximum of 20% of its outstanding stock. This is similar to other airlines.

## What about a deal?

Transat was set to be purchased before the pandemic, but **Air Canada** dropped the deal to [preserve cash](#). And rightly so. But now that leaves the company in the air (pardon the pun). When asked whether the company would sell in the future, management said it was open to the possibility. However, it didn't state whether any offers had been made.

Interest before in the company plummeted because of the pandemic. However, now that it's struggling, it could be a solid acquisition target for a cheap cost. But for now, the future remains unclear for Transat stock.

## Is Transat stock a good buy?

Financial assistance is helpful to get this stock through the pandemic, but there is far too much uncertainty with Transat stock. Transat stock currently trades at \$4.62 as of writing. This represents a 52% drop in the last year alone, a straight line down with very little recovery. Yet the company remains overvalued given this uncertainty, trading at 33.5 times book value. I'm afraid Transat stock remains a stock to avoid for now until its future remains far more clear.

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