



Will Rouge Keep Air Canada Out of the Red?

Description

Since **Air Canada** (TSX: AC.B) launched its discount carrier Rouge back in July, it has grown to 54 routes soon to be spread across three continents. The next phase of expansion (and discreet cost-cutting) comes in the form of transferring several Air Canada routes in Western Canada to Rouge.

Air Canada will be using its more cost-effective Rouge brand to target leisure travelers in Western Canada looking to fly down south. Starting in April, flights to Las Vegas from Vancouver and Calgary will now be under the Rouge banner. Several other route conversions are planned and will be in full effect by mid-December.

The routes affected are:

- Vancouver to Las Vegas, Los Angeles, Anchorage, San Francisco, and Phoenix
- Calgary to Las Vegas, Los Angeles, and Phoenix
- Toronto to San Diego and Phoenix

The Rouge strategy

These transfers of routes from Air Canada to Rouge are part of a larger five-year, \$100 million cost-cutting strategy. Air Canada is looking to achieve a 15% reduction in “cost per available seat mile”, and this is one of many steps being revealed to investors.

Because of the different structure Rouge operates under, it operates 21% cheaper with its narrow body planes, and 29% cheaper with its Boeing 767 aircrafts. These savings come in the form of added seats, lower wages, “flexible” work rules and lower overhead costs.

Rouge also gives Air Canada a place to transfer its older Airbus A319s and Boeing 767s as it receives its next generation of aircrafts. These older aircraft are larger than its current fleet, giving Rouge more options of where it can travel.

In preparation for this expansion, Air Canada began in January to amass a stockpile of flight attendants, as its current work force of 220 is expected to grow to 650 by the end of the year.

This Western push is above and beyond previously announced 2014 expansions into Barcelona, Dublin, Lisbon, Manchester, Nice, Rome and the Caribbean.

East vs. West-Jet

This presents an interesting situation — as Air Canada pushes west with its discount carrier, **WestJet Airlines** (TSX: WJA) has been making inroads east with its own discount carrier, Encore. This summer Encore will launch a new route from its new eastern hub Toronto to Thunder Bay. WestJet has already received 6 of 25 Bombardier Q400 turboprop aircrafts to service its growing expansion plans.

Foolish bottom line

Air Canada's conversion of some of its routes to Rouge could go a long way to offset the higher fuel costs it is facing because of the lower loonie. WestJet reported a few weeks ago that for every cent the loonie falls, operating costs rise by \$13 million (of which \$11 million is fuel purchased in the U.S.). Numbers for Air Canada should be closely inline with WestJet.

If Air Canada is able to meet its \$100 million savings goal, it should have a positive influence on its stock, which has been tumbling for the past three months.

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1. Investing

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