Can These Airlines Help Your Portfolio Soar?

Description

As CNN reported, "… the world's airlines have to keep evolving in order to stay resilient in the global world of commercial aviation." The airline industry inherently has high operating risk. Do the following companies afford enough return for the risks they and investors take on in a very competitive industry?

1. Air Canada

Air Canada (TSX:AC.B) is Canada's largest carrier. Air Canada is working to lower its cost structure and increase its competitiveness. Last year it launched Air Canada *rouge*, its new lower-cost leisure carrier. It wants to grow Air Canada *rouge* to improve margins in leisure markets. The airline also looking to develop opportunities in worldwide leisure markets made feasible by Air Canada *rouge's* lower cost structure.

In addition, Air Canada is initiating a strategy to add the Boeing 787 Dreamliner to its fleet to open up new direct routes. As *The Toronto Star* reported, the new plane could make flights to India profitable without having to route them through London or Zurich.

In 2013, Air Canada announced an improved commercial relationship with the Greater Toronto Airports Authority. This will permit it to grow its portion of international connecting traffic at Pearson Airport on a more cost-effective basis. Furthermore, Air Canada announced this week that its non-stop St. John's to London Heathrow flights will operate all year starting on October 26, 2014.

For Q1 2014, Air Canada reported Q1 earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent, or EBITDAR of $147 million versus EBITDAR of $145 million in Q1 2013. For Q1 2014, it recorded an operating loss of $62 million versus an operating loss of $106 million in Q1 2013.

2. WestJet Airlines

WestJet Airlines (TSX: WJA) flies 420 flights each day on average. Its Q1 2014 financial results represent the airline's 36th consecutive quarter of reported profitability. WestJet had total revenues of $1.04 billion. This represents an increase of 7.7% from $967.2 million in Q1 2013. However, it did see a drop in net earnings. It had net earnings of $89.3 million, a decrease of 2% from $91.1 million in Q1 2013. WestJet's revenue increase was mainly attributable to an increase in traffic of 6.5% year over year.

Part of WestJet's strategy is to establish strong airline partnerships. To this end, it entered into two more interline agreements this year. This brings its total number of airline partnership agreements to 35 as of May 2014.

Last month, WestJet's board declared a cash dividend of $0.12 per common voting share and variable voting share for Q2 2014.

The quest for increased earnings is tough for airlines, but these two Canadian carriers are employing solutions to increase market share. I'm not sold on airline stocks just yet, but the above initiatives by these two are worth watching.

CATEGORY

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