

What WestJet's Encore Expansion Could Mean for Your Portfolio

Description

It has been just over a year since **WestJet** (TSX: WJA) launched its discount carrier Encore within its home market of western Canada. Now Encore is making its first landing in eastern Canada — Toronto and Thunder Bay, to be specific.

Encore began its service with two new Q400 turboprop planes built by **Bombardier** and only six destinations. Now, through targeting many unconventional communities such as Brandon, MB; Penticton, BC; and Terrace, BC, Encore has become an excellent bridge for customers to board a mainline WestJet flight. About half of all people who board an Encore Q400 end up transferring to a WestJet 737 to complete their trip.

As of Friday, WestJet's Encore will be offering four daily non-stop flights between Thunder Bay and Toronto as a way of kicking off its ambitious expansion plans. This expansion was part of the original plan. The president of Encore always anticipated entering the eastern market within the first year of operation.

Ontario is only the first part of the overall expansion plan for Encore, and now the carrier is looking south for more destinations. This expansion would take the competition between Encore and **Air Canada's** (TSX: AC.B) discount carrier rouge to a new level, as rouge has begun flying leisure routes from western Canada to the southern U.S. In total, Encore is looking to have a fleet of 45 aircraft in operation.

Encore vs. rouge

Thus far, Encore seems to be winning the battle of customer satisfaction, with many dissatisfied rouge customers turning to social media to complain about how they had been "rouged". Encore and rouge also have far different operational foundations, while Encore boasts its newer streamlined Q400 aircraft. Many customers and analysts see the aircraft operated by rouge as simply being standard Air Canada planes with less leg room and different paint schemes.

One study on the Vancouver to Fort St. John, BC, route has shown that since the launch of Encore the average price of an advanced ticket has dropped by 70%, with an increase in traffic of 400%. While not always as dramatic, this trend is appearing more and more where Encore is competing with Air Canada and rouge. On that same Vancouver to Fort St. John route, Air Canada has seen revenue drop 17%, or \$8 million, since Encore began operating.

Analysts are predicting that Air Canada stands to lose over \$150 million in revenue due to the seven new Toronto-originating destinations Encore will soon be launching.

The luck of the Irish

All of this is above and beyond the most recent gamble by WestJet: its summer service to Dublin,

Ireland. Less than a week into operations, WestJet is declaring the route to be in the black, with 80% of seats already sold for the entire season. This is seen by the company as a low-risk way of testing the European market. The early success of the Dublin route has already led the company to extend the service to October 25th.

WestJet appears to be the favorite Canadian airline among analysts, who are projecting a 22% increase in its share price over the next year. They are also projecting net income to rise by 3.1% and revenue to grow by 5.2%, reaching \$3.9 billion.

The stock closed Friday at \$26.24, right near the high end of its 52-week range of \$19.65 to \$28.99. The average price target is sitting at \$30.50, with a top end price of \$35.00. WestJet also offers investors an annual dividend of \$0.48 with a yield of 1.8%.

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