

WestJet's Profits Rise 16%; Is There More Upside to Come?

Description

WestJet (TSX: WJA) shares rallied sharply on Tuesday following a set of strong quarterly results.

WestJet's earnings boost was due to large growth in its operating businesses. Sales jumped 10% to \$930.3 million, handily beating the street's estimates. Revenue for each seat flown per mile was up 4.8%, faster than the 4.2% rise in costs. Growth in passenger numbers of 6.2% helped WestJet fill 79.6% of its seats during the quarter, up from 79.4% during the same period last year. Yield, or average fare per mile, climbed 4.5% to 18.9 cents.

Those strong top-line numbers also trickled down to the bottom of the company's income statement. Second-quarter profits rose to \$51.8 million or \$0.40 per share, versus \$44.7 million or \$0.34 per share during the same period a year earlier. WestJet reported that expenses excluding fuel and employee profit sharing will rise 1.5% to 2.0% this year, down from earlier guidance for a 2.5% increases in costs.

WestJet's results at a glance

June 2014 EPS	\$0.40
Analyst EPS Est	\$0.28
Year-Ago EPS	\$0.34
June 2014 Revenue	\$930.3M
Year-Ago Revenue	\$843.79M

Source: Yahoo! Finance

WestJet is now stepping up its expansion plans on the back of these strong results. After opening up new service to Ireland earlier this year, the company wants to further expand its overseas business. WestJet announced an agreement to lease or buy new wide-body aircraft from aerospace manufacturing giant **Boeing** yesterday. The bigger planes can fly further than WestJet's current fleet of Boeing 737s and allows the company to compete with **Air Canada** (TSX: AC.B).

WestJet is also expanding its short-haul Encore unit and its premium economy service to attract more high-margin business travellers. According to an announcement from **Bombardier** ([TSX: BBD.B](#)) on Monday, WestJet exercised options to buy five more Q440 turboprops, which are operated by Encore's short-haul division.

Investors were obviously impressed. Shares of WestJet rose 4.5% as of midday Tuesday, briefly touching a new 52-week high in morning trading.

Should you invest?

After years of losses, recessions, and high jet fuel costs, airline investors finally have something to

hang their hats on. These companies have significantly improved their pension situations and strengthened their balance sheets, making them one of the best-performing industries on the U.S. and Canadian markets over the past year. And in spite of the large rally over the last 12 months, many airlines have so far avoided the large, eye-popping valuations that are starting to show up in other sectors.

That leaves the airline industry with more upside room if earnings growth continues. If executives can maintain their discipline and continue to put profits ahead of market share, then airline stocks could remain an investor favourite for years to come.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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