

Why Investors Love WestJet Airlines Ltd.'s New \$25 Baggage Fee

Description

Investors rejoiced at the news of **WestJet Airlines Ltd.**'s (TSX: WJA) introduction of a \$25 baggage fee for a first checked baggage on flights within Canada and to the United States.

Although the new fee applies to bookings made starting yesterday for travel on or after Oct. 29, 2014, shares of the company soared to a record high and sat comfortably at about \$32.50 at the end of the day.

In the midst of all this, the big question on investors' mind remains how this fee will impact WestJet's revenue.

Well, research firm Cowen & Co. expects an increase of \$0.07 in earnings per share for two months in the fourth quarter of this year. For 2015, it forecasts a baggage fee to generate about \$0.40 cents earnings per share.

On the other hand, AltaCorp Capital Inc. estimates the fee to generate ancillary revenue of \$11.9 million in 2014 and \$87.5 million in 2015.

That's a pretty sweet deal considering the addition of this fee includes almost no costs whatsoever. WestJet has hinted about the addition of this fee several times. However, Cowen & Co. says WestJet's IT wasn't able to handle the change in the fee structure... until now. And this charge will affect about one in five passengers, according to the airline.

In addition, WestJet made a few other announcements, too:

1. Guests who select a "Flex" fare will receive one free checked bag while guests choosing a "Plus" fare will enjoy two complimentary checked bags in addition to waived fees, seat selection, more legroom, and many other amenities.
2. Launch of a new three-tiered loyalty program — Teal, Silver, and Gold. Guests under the Silver tier can check a first bag at no cost, while guests in the Gold tier will get two free checked bags.
3. Introduction of a "price-drop" guarantee on flights and holiday packages where guests who see the price of their flight or package has dropped since their original purchase can receive the difference in WestJet dollars.

All these initiatives clearly point out WestJet is trying to give price-sensitive travelers several options to choose WestJet over other carriers. Although regional carrier **Porter Airlines** led the race to announce a fee for first checked bags in the Canadian domestic market in May, WestJet shareholders have welcomed this news.

As for investors wondering whether **Air Canada** will be next in line to hop on the bandwagon? My bets are on that happening sooner rather than later.

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1. Investing

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