



Investors Get Their Wish as Air Canada and WestJet Begin Charging for First Checked Bags

Description

In a tit-for-tat closeout to last week, both of Canada's top airlines, **WestJet** (TSX: WJA) and **Air Canada** (TSX: AC.B), announced that they would start to levy \$25 to some customers' first checked bags. WestJet was first to make the announcement followed a day later by Air Canada.

This announcement should come as no surprise to both investors and consumers, as this has been a longstanding point of contention between investors and the two companies. Consumers, on the other hand, have been watching the writing on the walls down south for several years now as most of the big American airlines now charge for first checked bags in many instances and are pocketing \$3 billion a year doing so.

Now that shareholders have gotten their way, what awaits the stocks of both of these companies? Will consumers bite the bullet and fork over the \$25, will they refuse, or will they be corralled into a higher class of plane ticket?

Which company benefits the most?

WestJet is only applying this fee on its Econo fare class and the first bag will remain free for those who upgrade to Flex or Plus of seating. Customers with a WestJet RBC World Elite MasterCard or are Silver or Gold level members of WestJet rewards will also be exempt.

WestJet is basing this on the fact that 25% of customers don't check a bag at all and that they shouldn't be charged for it. The expectation is that only 20% of WestJet's 18 million plus customers will be affected by the new charge. It also paints a very clear picture of the success of WestJet's three-tier pricing system.

Air Canada, which was characteristically late to the party, won't see as much of a consumer adjustment to its announcement as it already charges U.S.-bound travelers for first checked bags. The fees are being charged to those who purchase tickets at the lowest fare rate, Economy Class Tango. Much like WestJet, customers who are members of a variety of rewards programs or who book with Air

Canada Vacations will be exempt from the fees.

Analyst predictions on the annual revenues that will be generated are rather mixed but encouraging, as CIBC sees Air Canada generating \$37 million while WestJet could see \$70 million in new revenues. AltaCorp Capital believes that Air Canada will generate \$87.5 million in fees in 2015, while Canaccord Genuity sees up to \$96 million a year for WestJet.

A dark horse lurks in the shadows

Canadians are a thrifty bunch. If growing up in Winnipeg has taught me anything, it is that people will go to great lengths to save a dollar. Hopefully for both Air Canada and WestJet, they haven't created a marketing monster that **Southwest Airlines** ([NYSE: LUV](#)) could unleash if it turns its attention to the North as Southwest Airlines currently offers the first two checked bags free to its customers. While it has yet to commit to expansion, there has been much talk that the company is looking to expand both north and south of the U.S. border.

A bullish outlook for both companies

Both WestJet and Air Canada have had a great summer in terms of their respective stock prices as WestJet hit a 52-week high of \$33.33 last week and Air Canada hit its 52-week high of \$10.90 in June. Even before these announcements, analysts have been rather bullish on both airlines and when we look at the current prices and the target prices, we see quite a bit of growth coming for both airlines.

WestJet closed Friday \$32.47 and has an average price target of \$36.30, while Air Canada closed Friday at \$8.85 and has an average price target of \$12.40.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:LUV (Southwest Airlines Co.)

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