

WestJet Airlines Ltd. and TransAlta Corporation to Rally on Low Oil Prices

Description

Oil prices are low enough that they are a major threat to most sectors of Canada's economy. But **WestJet Airlines Ltd.** (TSX: WJA) and **TransAlta Corporation** ([TSX: TA](#))([NYSE: TAC](#)) could rally on the back of that weakness.

At first, the drop in oil prices was good for the economy. Now the fall has gone too far, and if oil prices remain near the price of production — where they are currently sitting — there could be some disastrous effects on the economy.

Operating under conditions where they are barely breaking even, many oil producers will curb production. This will ripple throughout Canada's oil-based economy, as layoffs will most certainly ensue. With fewer people in the workforce, many consumer-related companies will suffer. We know that energy companies will struggle, so they're out as potential investments right now. We know consumer-related stocks are out, too.

So what does that leave? The answer is not much, but here are two companies that could see significant upside.

WestJet Airlines

Airlines in general are probably the biggest beneficiary of low oil prices. This argument is simple: their biggest expense is fuel, and when their biggest expense goes down in price, their profit margins improve. The airlines may see their revenues decline if the drop in oil prices is enough to impact demand for flights, but the fall in their expenditures will more than compensate for that.

In Canada we have two major airlines; my favourite is WestJet. WestJet is an extremely well-run company that is known for its well-thought-out and successful expansions. The company has reported great operating margins recently, and is looking into putting another row of seats in its 737s to boost margins even further. The company's CEO recently said that he is "open to lowering fares." So, if lower fuel costs impact demand for airlines, the company could lower its fares to increase demand. Given the fall in fuel costs, it has the wiggle room to do so.

TransAlta Corporation

Utilities also benefit from lower oil prices. This is because oil is deflationary. When oil falls, bonds rise and yields weaken. This encourages investors to put their money into the utilities as income generators when the bond market isn't performing well. While I see this as a positive for TransAlta's stock, the reason I am more bullish on TransAlta's stock over other Canadian utilities is its exposure to natural gas.

The natural gas market is heating up now as we head into its seasonal peak demand period, with November already looking like it will be very cold across much of North America. With winter not even officially under way yet, we could see another spike in natural gas prices this winter, and that will help

TransAlta's bottom line.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:TA (TransAlta Corporation)

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Date

2025/08/26

Date Created

2014/11/10

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