



## Will WestJet Airlines Ltd. and Air Canada Be the Biggest Winners of 2015?

### Description

Thanks to low oil prices, 2015 is shaping up to be the year of the airlines as **WestJet Airlines Ltd.** (TSX:WJA) and **Air Canada** ([TSX:AC](#)) appear ready to take off.

When this year began, investors and analysts alike were looking at all of the warning signs of a very rough year on the TSX. It is now a month into 2015 and we still have crude prices around \$50, the loonie under US\$0.80, massive retail closures, and an unexpected cut to the prime lending rate. Many sectors of the TSX look rather bleak and it is getting more difficult to find bright spots that could turn into some returns before the year is out.

While many industries will suffer, airlines in Canada could see one of their best years yet, thanks in part to some of the issues mentioned above.

### Cheap gas

This narrow window of low oil prices will give some relief to each airline's operational expense ratios, which have been hindered by higher oil prices. WestJet and Air Canada have two strategies available to them thanks to these lower jet fuel prices — they can either pocket the savings or use the extra margins to reduce fares. One likely outcome could be that the airlines will hold onto the savings for at least the first quarter, then in the second quarter some reductions on fares may be implemented to boost traffic before the summer busy season.

WestJet might be the one to lower prices first, in order to spur revenues in Alberta as low oil prices continue to drag down the overall economy. Air Canada, which is seen as a more dominant force in Eastern Canada, should see some growth thanks in part to a renewed industrial sector benefiting from the lower loonie.

Regardless of the strategy employed, the fact that the loonie is trading just below \$0.80 could be a wild card. The lower strength of the dollar could hurt U.S.-bound tourism, and it will also add to the refueling costs in the south of the border.

## 2015: A year of expansion and growth

Both Air Canada and WestJet are looking at 2015 as a year of expansion mainly through their respective discount carriers and into the United States. WestJet will be commencing services from Calgary to Houston, Texas and Yellowknife NWT. Discount carrier Encore will continue its march east into Fredericton, Ottawa, Montreal, and Quebec City. WestJet will also be resuming its European experiment by offering flights to Dublin, Ireland and Glasgow, Scotland in the spring.

Air Canada is looking to counter WestJet's eastern push by increasing the presence and fleet size of its discount carrier Rouge in Western Canada.

## Financial reports touching down soon

Over the next two weeks both airlines will be releasing their quarterly reports and highlights for both will be the first revenues from first checked bags as well as the results from the holiday season. Analysts are predicting that WestJet will report \$293 million in annual profits, while Air Canada is projected to post profits of \$340 million.

Normally at this point we would narrow down our list of two companies and tell you which one is your best investment option, but with 2015 being the year that it is, things are a little more complicated.

Air Canada's stock has taken off (pun intended) in the past year and doesn't appear to be near its maximum cruising altitude. In the past 52 weeks, Air Canada has had a trading range of \$5.14 to \$12.75 and closed yesterday at \$11.96. Previously, for the most part Air Canada's stock has been a basement dweller with the odd upswing.

However, 2015 could be the year that changes as profits are projected to triple and analysts are estimating that the stock could double over the year. WestJet is still the top pick over the long run, but Air Canada is a short-term option that shouldn't be ignored.

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