



Is WestJet Airlines Ltd. the Stock to Buy Today?

Description

WestJet Airlines Ltd. (TSX:WJA) is one of the largest airlines in North America, and its stock was one of the market's top performers in 2014, rising approximately 19.8% and far outperforming the TSX Composite Index's return of approximately 7.4%. The stock has had a poor start to 2015, falling over 6.5%, but I think it will rebound and head much higher over the course of the year, so let's take a look at three reasons you should consider initiating long-term positions today.

1. Record earnings to support a higher stock price

On February 3, WestJet released record fourth-quarter earnings, and its stock has responded by rising over 2% in the days since. Here's a breakdown of 10 of the most notable statistics and updates from the report compared to the year-ago period:

1. Adjusted net income increased 33.8% to \$90.7 million.
2. Adjusted earnings per share increased 34.6% to \$0.70.
3. Total revenue increased 7.3% to \$994.4 million.
4. Segment guests increased 5.9% to 4.83 million.
5. Operating profit increased 37.3% to \$139.61 million.
6. The operating margin expanded 300 basis points to 14%.
7. Available seat miles (ASMs) increased 7.3% to 6.38 billion.
8. Revenue passenger miles (RPMs) increased 6.5% to 5.08 billion.
9. Revenue per revenue passenger mile increased 0.7% to 19.57 cents.
10. Westjet ended the quarter with \$1.36 billion in cash and cash equivalents, an increase of 8.1% from the year ago period.

In fiscal 2014, WestJet's adjusted earnings per share increased 21.2% to \$2.46 and its revenue increased 8.6% to \$3.98 billion, and after the aforementioned fourth-quarter performance, I think it's safe to assume that it has momentum on its side heading into the first-quarter of fiscal 2015.

2. The stock trades at inexpensive current and forward valuations

At today's levels, WestJet's stock trades at just 12.7 times its trailing 12 months earnings per share of

\$2.46, only 11.8 times fiscal 2015's estimated earnings per share of \$2.63, and a mere 9.1 times fiscal 2016's estimated earnings per share of \$3.44, all of which are inexpensive compared to its five-year average price-to-earnings multiple of 13.8 and the industry average price-to-earnings multiple of 14.9.

I think WestJet's stock could consistently command a fair multiple of about 13.5, which would place its shares upwards of \$35.50 by the conclusion of fiscal 2015 and upwards of \$46 by the conclusion of fiscal 2016, representing an upside of approximately 14% and 47.7%, respectively, from current levels.

3. A generous dividend that is on the rise

On the day of its fourth-quarter earnings release, WestJet also announced a 16.7% increase to its quarterly dividend to \$0.14 per share, bringing its annual payment to \$0.56 per share and giving its stock a healthy 1.8% yield at current levels. This marked the fifth consecutive year in which the company has raised its dividend, and I think it can continue this streak for the next several years because it generates ample free cash flow each quarter and year.

Should you invest in WestJet Airlines today?

WestJet Airlines was one of the market's best performing stocks in 2014, and I think it will post a similar performance in 2015 because it has record earnings to support a higher stock price, trades at inexpensive current and forward valuations, and pays a generous 1.8% dividend, which it has increased in each of the last five years. With all this in mind, I think WestJet Airlines represents one of the best long-term investment opportunities in the market today, so Foolish investors should strongly consider initiating positions.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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