



WestJet Airlines Ltd. or Air Canada: Which Should You Buy Today?

Description

WestJet Airlines Ltd. (TSX:WJA) and **Air Canada** ([TSX:AC](#)) are two of the largest airline companies in North America and both of their stocks represent great long-term investment opportunities today. However, the laws of diversification say we cannot own both, so let's take a closer look at each company's most recent quarterly release and other important statistics to determine which stock represents the better investment opportunity today.

WestJet Airlines Ltd.

WestJet Airlines announced record first-quarter earnings results before the market opened on May 5, but its stock has responded by falling over 5% in the trading sessions since. Here's a breakdown of 10 of the most notable statistics from the report compared with the year-ago period:

1. Net income increased 57.6% to \$140.7 million
2. Earnings per share increased 58% to \$1.09
3. Revenue increased 4% to \$1.08 billion
4. Total guests increased 2.2% to 4.91 million
5. Revenue passenger miles increased 2.8% to 5.57 billion
6. Total operating expenses decreased 2.7% to \$886.34 million
7. Operating cost per available seat mile decreased 7% to 13 cents
8. Operating profit increased 49.8% to \$197.16 million
9. Operating margin expanded 560 basis points to 18.2%
10. Return on invested capital improved 150 basis points to an all-time high of 15.8%

At today's levels WestJet's stock trades at just eight times fiscal 2015's estimated earnings per share of \$3.32 and only 7.6 times fiscal 2016's estimated earnings per share of \$3.48, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 13.8 and the industry average multiple of 12.8.

In addition, WestJet pays quarterly dividend of \$0.14 per share, or \$0.56 per share annually, giving its stock a 2.1% yield at current levels. The company has also increased its dividend five times in the last

three years, showing that its management team is dedicated to maximizing the amount of capital it returns to shareholders.

Air Canada

Air Canada announced record first-quarter earnings results before the market opened on May 11, and its stock has responded by rising about 10% in the trading sessions since. Here's a breakdown of the same 10 statistics we pulled from WestJet's report compared with the year-ago period:

1. Net income increased \$254 million to \$122 million
2. Earnings per share increased \$0.87 to \$0.41
3. Revenue increased 6% to \$3.25 billion
4. Total guests increased 8.4% to 9.49 million
5. Revenue passenger miles increased 10.9% to 14.94 billion
6. Total operating expenses decreased 2% to \$3.05 billion
7. Adjusted operating cost per available seat mile decreased 1.8% to 11.9 cents
8. Operating profit increased \$262 million to \$200 million
9. Operating margin expanded 820 basis points to 6.2%
10. Return on invested capital improved 430 basis points to 15.2%

At current levels, Air Canada's stock trades at just 4.7 times fiscal 2015's estimated earnings per share of \$2.66 and only 3.7 times fiscal 2016's estimated earnings per share of \$3.40, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 32.7 and the industry average multiple of 12.8.

Which stock represents the better buy today?

After comparing WestJet's and Air Canada's first-quarter earnings results and their forward valuations, and also factoring in WestJet's dividend, I think WestJet Airlines represents the better long-term investment opportunity today.

Even though Air Canada's first-quarter growth was much higher on a year-over-year basis and its stock trades at lower valuations, WestJet has grown at a much more consistent rate over the last five years, and its dividend will provide additional returns to investors going forward, while also providing protection to the downside in times of market volatility.

With all of the information provided above in mind, Foolish investors should strongly consider establishing long-term positions in WestJet Airlines today.

CATEGORY

1. Dividend Stocks
2. Investing
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TICKERS GLOBAL

1. TSX:AC (Air Canada)

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Date

2025/09/18

Date Created

2015/05/21

Author

jsolitro

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