



WestJet Airlines Ltd. Is at a 52-week Low. Should You Buy it?

Description

WestJet Airlines Ltd. (TSX:WJA) fell 31%, but because of its cyclical nature, investors should only buy when its shares are cheap. It doesn't matter what kind of investor you are. No one wants to overpay for a company. Here is a company that pays a 2.4% dividend, but has been growing it for multiple years at a fast rate. It's rare for an airline to have this kind of track record.

However, due to an analyst downgrade, its shares continue to fall after essentially trading sideways for three months. Now that WestJet has fallen 31% in price and is hitting its 52-week low, is it time to buy its shares? First, let's take a look at the airline's business.

The business

Founded in 1996, WestJet's principle has been to be a low-cost choice for travelers without compromising service quality.

WestJet's business is cyclical. So, there are times when its net earnings may decrease or even be negative, and this can go on for multiple years.

[wja net earnings](#) unknown

Source: Slide four, WestJet's May Presentation (arrows added by author)

Because of its cyclical nature, investors must pay particular attention to not overpaying for the company.

Dividend history and safety

WestJet has increased its dividend for five years in a row, which is a pretty good record for a Canadian company, let alone an airline. In four years' time, WestJet increased its dividend at a compound annual growth rate of 29%; that is a smoothed-out increase of 29% per year.

The last hike was in quarter one of 2015 with a growth rate of 16.7%. With its payout ratio sitting

around 19%, WestJet's 2.4% yield has a margin of safety and should continue growing.

Is WestJet cheap or expensive today?

At under \$24 per share, WestJet is trading at a multiple of 9.8 using 2014's earnings per share (EPS). In recent years it typically traded between a multiple of 12-13.5, which implies a fair price of \$30-34 based on EPS growth of close to 8% per year. This equates to a discount of 20-29%. In other words, WestJet shares are cheap today.

Should Foolish investors buy today?

If you want only the highest-quality companies for your portfolio, WestJet is not your kind of stock as it only has an S&P credit rating of BBB-. However, I think that using WestJet as a trade is a possibility. It would depend on the multiple expansion to 12-13.5 that is backed by company growth.

Investors who have the patience to invest for at least a couple years can buy its shares with a target capital gain of 20-29% for a turnaround trade.

CATEGORY

1. Dividend Stocks
2. Investing

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