



WestJet Airlines Ltd.'s Shares Fall Despite Record Q2 Earnings: Is Now the Time to Buy?

Description

WestJet Airlines Ltd. (TSX:WJA), one of North America's largest airliners, released record second-quarter earnings results before the market opened on July 28, but its stock has responded by making a slight move to the downside. Let's take a closer look at the results to determine if we should consider using this weakness as a long-term buying opportunity, or as a warning sign.

Breaking down the record-setting results

Here's a summary of WestJet's second-quarter earnings results compared with its results in the same period a year ago.

Metric	Q2 2015	Q2 2014
Earnings Per Share	\$0.49	\$0.40
Revenue	\$942.00 million	\$930.34 million

Source: WestJet Airlines Ltd.

WestJet's diluted earnings per share increased 22.5% and its revenue increased 1.3% compared with the second quarter of fiscal 2014. The company's double-digit percentage increase in earnings per share can be attributed to its net income increasing 18.9% to \$61.6 million and its share repurchase activity, including \$126.07 million in repurchases over the last 12 months.

Its slight increase in revenue can be attributed to its ancillary revenue, which includes service fees and onboard sales, increasing 73.3% to \$82.9 million, but this growth was partially offset by guest revenues decreasing 2.2% to \$828.91 million, despite a 3.9% increase in the number of guests to 4.96 million.

WestJet also proudly noted that this marked its fifth consecutive quarter with record adjusted net income and its 41st consecutive profitable quarter.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago

period:

1. Ancillary revenue per guest increased 66.7% to \$16.74
2. Operating profit increased 28% to \$100.39 million
3. Operating margin expanded 230 basis points to 10.7%
4. Earnings before income tax increased 24.7% to \$88.89 million
5. Net cash provided by operating activities increased 11.7% to \$129.04 million
6. Return on invested capital improved 20 basis points to an all-time high 16%
7. Revenue per available seat mile decreased 5.7% to 14.16 cents
8. Cost per available seat mile decreased 8.1% to 12.65 cents
9. Load factor contracted 150 basis points to 78.1%
10. Fleet size increased 7.5% to 129

WestJet announced that it will be maintaining its quarterly dividend of \$0.14 per share, and the next payment will come on September 30 to shareholders of record at the close of business on September 16. It also announced that it has gained approval to double the number of shares it may repurchase under its normal course issuer bid from two million to four million, and this runs until May 12, 2016.

Does WestJet Airlines belong in your portfolio?

It was a great quarter overall for WestJet, so I do not think the post-earnings drop in its stock is warranted. In fact, I think its stock now has more fundamental support than ever to begin a rally back towards its 52-week high, which it now sits more than 36% below.

WestJet's stock trades at just 7.1 times fiscal 2015's estimated earnings per share of \$3.16 and fiscal 2016's estimated earnings per share of \$3.17, which is very inexpensive compared with its five-year average price-to-earnings multiple of 13.9. I think WestJet's stock could consistently command a fair multiple of at least 12, which would place its shares upwards of \$38 by the conclusion of fiscal 2016, representing upside of more than 71% from today's levels.

WestJet pays an annual dividend of \$0.56 per share, which gives its stock a 2.5% yield, and it has increased its dividend five times in the last three years, making it one of the top dividend-growth plays in the industry. Also, the company has been actively repurchasing its shares, including repurchases totaling \$71.91 million in the first half and \$27.6 million in the second quarter, and this will help boost its earnings growth going forward.

With all of the information provided above in mind, I think WestJet Airlines represents the best long-term investment opportunity in the airline industry today. Foolish investors should strongly consider making it a core holding.

CATEGORY

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