



WestJet Airlines Ltd. or Air Canada: Which Is the Better 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 represents attractive long-term investment opportunities today. However, the laws of diversification state that we simply cannot own both, so let's take a closer look at each companies' financial performance in the first half of fiscal 2015, their stocks' forward valuations, and their dividends, if any, to determine which represents the better long-term investment opportunity today.

WestJet Airlines Ltd.

WestJet's stock has fallen about 30% year-to-date, including an increase of about 3% since it announced record earnings results on July 28 for its three and six-month periods ending on June 30, 2015. Here's a breakdown of six of the most notable statistics from the first half of fiscal 2015 compared with the same period in fiscal 2014:

1. Net income increased 43.4% to \$202.3 million
2. Diluted earnings per share increased 45% to \$1.58
3. Revenue increased 2.7% to \$2.03 billion
4. Total guests transported increased 3% to 9.87 million
5. Operating profit increased 41.7% to \$297.55 million
6. Operating margin expanded 410 basis points to 14.7%

At today's levels, WestJet's stock trades at 7.7 times fiscal 2015's estimated earnings per share of \$3.01 and 7.8 times fiscal 2016's estimated earnings per share of \$2.99, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 13.9.

In addition, WestJet pays quarterly dividend of \$0.14 per share, or \$0.56 per share annually, which gives its stock a 2.4% yield at current levels. It is also worth noting that the company has increased its annual dividend payment for four consecutive years, and its 16.7% increase in February puts it on pace for 2015 to mark the fifth consecutive year with an increase.

Air Canada

Air Canada's stock has fallen over 6% year-to-date, including a decline of over 13.5% since it announced record earnings results on August 12 for its three and six-month periods ending on June 30, 2015. Here's a breakdown of six of the most notable statistics from the first half of fiscal 2015 compared with the same period in fiscal 2014:

1. Adjusted net income increased 5,214.3% to \$372 million
2. Adjusted earnings per share increased 6,200% to \$1.26
3. Revenue increased 4.6% to \$6.66 billion
4. Total guests transported increased 7.4% to 19.72 million
5. Operating profit increased 185.8% to \$523 million
6. Operating margin expanded 490 basis points to 7.8%

At current levels, Air Canada's stock trades at three times fiscal 2015's estimated earnings per share of \$3.69 and 3.1 times fiscal 2016's estimated earnings per share of \$3.56, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 31.6.

Air Canada does not currently pay a dividend, but it did report free cash flow of \$682 million in the first half of fiscal 2015, an increase of \$684 million compared with the same period a year ago, so if it keeps this up, I think it could initiate a dividend in fiscal 2016.

Which airline is the better buy today?

After directly comparing WestJet Airlines and Air Canada, I think WestJet Airlines represents the better long-term investment opportunity today. Both companies reported very strong earnings results in the first half of fiscal 2015 and Air Canada's stock trades at more attractive forward valuations, but WestJet is one of the top dividend-growth plays in the industry, and this is very important given the ongoing uncertainty in the market. With all of the information above in mind, Foolish investors should strongly consider establishing positions in WestJet Airlines today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

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