



Is WestJet Airlines Ltd. a Strong Buy After its Record Q3 Results?

Description

WestJet Airlines Ltd. (TSX:WJA), one of North America's largest airlines, released record third-quarter earnings results before the market opened on November 3, and its stock has responded by making a slight move to the upside. The company's stock still sits more than 30% below its 52-week high of \$34.95 reached back on December 3, 2014, so let's take a closer look at the results to determine if we should be long-term buyers today.

The record results that surpassed analysts' expectations

Here's a summary of WestJet's third-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Adjusted Diluted Earnings Per Share	\$0.82	\$0.75	\$0.66
Revenue	\$1.05 billion	\$1.02 billion	\$1.01 billion

Source: *Financial Times*

WestJet's adjusted diluted earnings per share increased 24.2% and its revenue increased 3.5% compared with the third quarter of fiscal 2014. The company's double-digit percentage increase in earnings per share can be attributed to its adjusted net income increasing 19.2% to \$101.8 million, helped by its total operating expenses increasing just 0.2% to \$885.54 million, and its weighted-average number of diluted shares outstanding decreasing 3.4% to 124.72 million.

Its slight increase in revenue can be attributed to its ancillary revenues, which includes its services fees, credit card program, and on-board sales increasing 76.3% to \$90.51 million, and this was only partially offset by its guest revenues decreasing 0.1% to \$928.82 million.

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

1. Segment guests increased 5.2% to a record 5.52 million
2. Other revenues, which includes ancillary revenues, increased 46% to \$116.23 million
3. Ancillary revenue per guest increased 67.8% to \$16.44
4. Operating profit increased 26.8% to \$159.52 million
5. Operating margin expanded 280 basis points to 15.3%
6. Adjusted earnings before taxes (EBT) increased 25.2% to \$146.3 million
7. Adjusted EBT margin expanded 240 basis points to 14%
8. Cash provided by operating activities increased 30.2% to \$330.29 million
9. Free cash flow increased 57.9% to \$180.28 million
10. Fleet size increased 7.3% to 132

WestJet also announced that it will be maintaining its dividend of \$0.14 per share in the fourth quarter, and it will be paid out on December 31 to shareholders of record at the close of business on December 16.

Should you invest in WestJet today?

It was an outstanding quarter overall for WestJet, so I think its stock has responded correctly by moving higher. I also think the stock represents a great long-term investment opportunity today, because it trades at very inexpensive valuations, because it is a dividend-growth play, and because the company has been actively repurchasing its shares.

First, WestJet's stock trades at just 8.1 times fiscal 2015's estimated earnings per share of \$3.00 and 8.3 times fiscal 2016's estimated earnings per share of \$2.95, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 13.5.

With its five-year average price-to-earnings multiple and its 12.7% long-term growth rate in mind, I think WestJet's stock could consistently command a fair multiple of at least 12, which would place its shares upwards of \$35 by the conclusion of fiscal 2016, representing upside of more than 43% from today's levels.

Second, WestJet pays an annual dividend of \$0.56 per share, giving its stock a 2.3% yield, and this is significantly higher than the industry average yield of 0.6%. It is also very important to note that it has raised its dividend for five consecutive years, and its ample free cash flow generation, including \$225.63 million in the first nine months of fiscal 2015, could allow this streak to continue in 2016.

Third, WestJet has been repurchasing its shares, including the repurchase of two million shares of its common stock for a total cost of approximately \$47.9 million in the first nine months of fiscal 2015. These repurchases are all part of its four million share normal course issuer bid that began on May 13, 2015 and will run through May 12, 2016, and they will help boost its earnings-per-share growth going forward and make its remaining shares more valuable than ever.

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

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