



4 Compelling Reasons to Buy WestJet Airlines Ltd.

Description

WestJet Airlines Ltd. (TSX:WJA) is one of Canada's largest airline companies, but this has not translated into a strong performance for its stock, as it has fallen more than 31% year-to-date. However, I think the stock could pare these losses and head significantly higher over the next several years. Let's take a look at four of the primary reasons why I think this could happen and why you should consider making it a core holding in your portfolio.

1. Its record earnings results could support a quick rebound

On the morning of November 3, WestJet released record earnings results for its three- and nine-month periods ending on September 30, 2015, but its stock has responded by falling over 6% in the weeks since. Here's a summary of 10 of the most notable statistics from the first nine months of fiscal 2015 compared with the same period in fiscal 2014:

1. Adjusted net earnings increased 34.3% to \$304.09 million
2. Adjusted diluted earnings per share increased 36.4% to \$2.40
3. Revenue increased 3% to \$3.07 billion
4. Segment guests increased 3.8% to 15.39 million
5. Guest revenues remained relatively unchanged at \$2.71 billion
6. Other revenues increased 32.9% to \$355.87 million, including its ancillary revenues increasing 71.1% to \$256.49 million
7. Earnings from operations increased 36.1% to \$457.07 million
8. Adjusted earnings before taxes increased 37.5% to \$427.63 million
9. Cash provided by operating activities increased 65.9% to \$715.91 million
10. Reported free cash flow of \$226.63 million compared to a cash use of \$75.56 million in the year-ago period

The third quarter of fiscal 2015 also marked WestJet's sixth consecutive quarter with record net earnings and its 42nd consecutive quarter of profitability.

2. Its stock trades at inexpensive forward valuations

At today's levels, WestJet's stock trades at 7.5 times fiscal 2015's estimated earnings per share of \$3.05 and 7.8 times fiscal 2016's estimated earnings per share of \$2.93, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 13.3.

At the very least, I think WestJet's stock should trade at 10 times earnings, which would place its shares upwards of \$29 by the conclusion of fiscal 2016, representing upside of more than 27% from today's levels.

3. It has been repurchasing its shares

WestJet has been actively repurchasing its shares over the last few years, including 1.44 million shares of its common stock for a total cost of approximately \$39.43 million in fiscal 2014 and 4.52 million shares of its common stock for a total cost of approximately \$119.8 million in the first nine months of fiscal 2015. There are also one million shares remaining for repurchase under its 2015 normal course issuer bid, which expires on May 12, 2016.

These repurchases will boost the company's earnings-per-share growth potential going forward and make its remaining shares more valuable.

4. It has one of the best dividends in the airline industry

WestJet pays quarterly dividend of \$0.14 per share, or \$0.56 per share annually, which gives its stock a respectable 2.5% yield, and this is more than four times the industry average yield of 0.6%. It is also important to note that the company has raised its annual dividend payment for five consecutive years, and its ample free cash flow, including the aforementioned \$226.63 million generated in the first nine months of fiscal 2015, could allow this streak to continue in 2016.

Should you add WestJet to your portfolio?

WestJet Airlines represents one of the best long-term investment opportunities in the market today, so all Foolish investors should take a closer look and strongly consider beginning to scale in to positions over the next couple of trading sessions.

CATEGORY

1. Investing

Category

1. Investing

Date

2025/09/30

Date Created

2015/11/17

Author

jsolitro

default watermark