



Air Canada or WestJet Airlines Ltd.: Which Should You Add to Your Portfolio?

Description

Air Canada ([TSX:AC](#)) and **WestJet Airlines Ltd.** (TSX:WJA) are Canada's largest airlines in terms of total fleet size, and both of their stocks represent very attractive long-term investment opportunities today.

However, in order to stay diversified, we must only choose one for our portfolios, so let's take a closer look at each company's earnings results in the first nine months of fiscal 2015, their stock's valuations, and their dividends, if any, to determine which is the better long-term buy today.

Air Canada

Air Canada's stock has fallen over 8% year-to-date, including a fractional move higher since it announced its earnings results on the morning of November 5 for its three- and nine-month periods ending on September 30, 2015. Here's a summary of eight of the most important statistics from the first nine months of fiscal 2015 compared with the same period in fiscal 2014:

1. Adjusted net income increased 138.4% to \$1.11 billion
2. Adjusted earnings per share increased 138.6% to \$3.77
3. Revenue increased 5.1% to \$10.69 billion
4. Revenue passengers carried increased 7.2% to 31.44 million
5. Operating income increased 88.7% to \$1.34 billion
6. Earnings before interest, taxes, depreciation, amortization, and aircraft rent increased 56% to \$2.11 billion
7. Net cash provided by operating activities increased 94.7% to \$1.79 billion
8. Reported free cash flow of \$592 million, compared to a cash use of \$194 million in the year-ago period

At today's levels, Air Canada's stock trades at 2.6 times fiscal 2015's estimated earnings per share of \$4.18 and three times fiscal 2016's estimated earnings per share of \$3.68, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 25.3.

Air Canada does not currently pay a dividend, but as mentioned before, it generated \$592 million of

free cash flow in the first nine months of fiscal 2015, so if it can continue to build on this, I think it could initiate a dividend in the very near future.

WestJet Airlines Ltd.

WestJet's stock has fallen over 34% year-to-date, including a decline of over 9% since it announced its earnings results on the morning of November 3 for its three- and nine-month periods ending on September 30, 2015. Here's a summary of eight of the most important statistics from the first nine months of fiscal 2015 compared with the same period in fiscal 2014:

1. Adjusted net income 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. Total guests transported increased 3.8% to 15.39 million
5. Operating income increased 36.1% to \$457.07 million
6. Adjusted earnings before taxes increased 37.5% to \$427.63 million
7. Net cash provided by operating activities increased 65.9% to \$715.91 million
8. Reported free cash flow of \$226.63 million, compared to a cash use of \$75.56 million in the year-ago period

At current levels, WestJet's stock trades at 7.2 times fiscal 2015's estimated earnings per share of \$3.05 and 7.5 times fiscal 2016's estimated earnings per share of \$2.93, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 13.2.

In addition, WestJet pays quarterly dividend of \$0.14 per share, or \$0.56 per share annually, giving its stock a 2.55% yield. It is also very important to note that it has raised its dividend for five consecutive years.

Which airline stock is the better buy today?

Here's how each company stacks up when comparing their earnings results, their stocks' valuations, and their dividends:

Metric	Air Canada	WestJet Airlines
Earnings Strength	1	2
Forward Valuations	1	2
Dividend	2	1
Average Ranking	1.3	1.7

As the chart above shows, WestJet pays a dividend, giving it the win in that category, but Air Canada reported stronger earnings results in the first nine months of fiscal 2015 and its stock trades at more attractive forward valuations, giving it the edge in this match up. With all of this being said, both stocks represent great long-term investment opportunities today, so Foolish investors should strongly consider initiating positions in one of them.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

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