



Is the Sell-Off in WestJet Airlines Ltd. Overdone?

Description

WestJet Airlines Ltd. (TSX:WJA), Canada's second-largest airliner, announced weaker-than-expected fourth-quarter earnings results on the morning of February 2, and its stock responded by falling over 11% in the day's trading session.

The company's stock now sits more than 48% below its 52-week high of \$32.35 reached back in February 2015, so let's take a closer look at the quarterly results, two other important announcements made by the company, and the fundamentals of its stock to determine if the sell-off is overdone and if now is finally the time to buy.

The disappointing quarterly results

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

Metric	Q4 2015 Actual	Q4 2015 Expected	Q4 2014 Actual
Adjusted Diluted Earnings Per Share	\$0.51	\$0.63	\$0.77
Revenue	\$958.72 million	\$973.85 million	\$994.39 million

Source: *Financial Times*

WestJet's adjusted diluted earnings per share decreased 27.1% and its revenue decreased 3.6% compared with the fourth quarter of fiscal 2014. Its steep decline in earnings per share can be attributed to its adjusted net earnings decreasing 30.1% to \$63.4 million, which was primarily due to a pre-tax loss on foreign exchange of \$10.1 million and its operating expenses decreasing just 1% to \$846.03 million.

Its slight decline in revenue can be attributed to its revenue per revenue passenger mile decreasing 4.2% to 18.75 cents, which led to its total revenue from guests decreasing 4.8% to \$842.55 million.

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

period:

1. Segment guests increased 1.4% to 4.89 million
2. Ancillary revenues increased 19.2% to \$79.83 million
3. Other revenues, which includes ancillary revenues, increased 6% to \$116.17 million
4. Earnings from operations decreased 19.3% to \$112.69 million
5. Operating margin contracted 220 basis points to 11.8%
6. Cash provided by operating activities increased 11.2% to \$157.12 million
7. Fleet size increased 14.8% to 140
8. Weighted-average number of diluted shares outstanding decreased 2.5% to 125.96 million

Other notable announcements

WestJet also made two important announcements.

First, the company announced that it will be maintaining its dividend of \$0.14 per share in the first quarter of fiscal 2016, and it will be paid out on March 31 to shareholders of record at the close of business on March 16.

Second, WestJet announced an amendment to its existing normal course-issuer bid to increase the maximum number of shares it can purchase from four million to six million during the period of May 13, 2015 to May 12, 2016, which represents about 4.75% of its total public float.

Is the sell-off overdone, or will it continue?

It was very weak quarter overall for WestJet, so I think the market reacted correctly by sending its shares lower. However, I think the sell-off is overdone at this point, and the stock represents an attractive long-term investment opportunity for three primary reasons.

First, its stock is wildly undervalued. It trades at 5.7 times fiscal 2015's adjusted earnings per share of \$2.92 and 5.8 fiscal 2016's estimated earnings per share of \$2.89, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 12.5. I think valuations this low offset the fact that the company is expected to report a slight decline in earnings in 2016.

With its five-year average multiple, its estimated 7.4% long-term earnings growth rate, and the high volatility in the market in mind, I think WestJet's stock could consistently command a fair multiple of at least eight, which would place its shares upwards of \$23 by the conclusion of fiscal 2016, representing upside of over 38% from current levels.

Second, WestJet has been actively repurchasing its shares, including 1.44 million shares in fiscal 2014 and 4.72 million shares in fiscal 2015, and this has played a major role in its earnings-per-share growth over the last few years. I think the company's amendment to its normal course-issuer bid is a sign that it plans to accelerate repurchases in fiscal 2016, which shows that it feels its stock is undervalued at current levels.

Third, WestJet pays an annual dividend of \$0.56 per share, which gives its stock a high and safe yield of about 3.4%. Investors must also note that the company has raised its annual dividend payment every year since it began paying one in the fourth quarter of 2010, resulting in five consecutive years of

increases, and I think it is well positioned to continue this streak going forward.

With all of the information provided above in mind, I think Foolish investors should strongly consider using the post-earnings weakness in WestJet Airlines' stock to begin scaling in to long-term positions.

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Date

2025/09/30

Date Created

2016/02/03

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