



Is Air Canada or WestJet Airlines Ltd. the Better Buy Today?

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) and **WestJet Airlines Ltd.** (TSX:WJA) are Canada's two largest airline companies, and both of their stocks represent intriguing long-term investment opportunities today.

However, in order to keep our portfolios diversified, we must only choose one, so let's compare their earnings results in the first quarter of 2016, their stocks' valuations, and their dividends, if any, to determine which is the better buy today.

Air Canada

Air Canada is the largest airline company in Canada. Its stock has fallen over 7% year-to-date, including a rally of over 13% since it released its first-quarter earnings results on April 29. Here's a breakdown of eight of the most notable statistics from the report compared with the year-ago period:

1. Adjusted net income decreased 30.3% to \$85 million
2. Adjusted earnings per share decreased 26.8% to \$0.30
3. Revenue increased 2.9% to \$3.34 billion
4. Passengers carried increased 5% to 9.96 million
5. Earnings before interest, taxes, depreciation, amortization, and aircraft rent increased 4.1% to a record \$460 million
6. Operating income decreased 23% to \$154 million
7. Cash provided by operating activities increased 19.5% to \$968 million
8. Added five aircraft to its fleet, bringing its fleet size to 374

At today's levels, Air Canada's stock trades at 2.5 times fiscal 2016's estimated earnings per share of \$3.76 and 2.8 times fiscal 2017's estimated earnings per share of \$3.36, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 31.1 and the industry average multiple of 12.9.

Investors must also note that Air Canada does not pay a dividend, but it does generate a significant amount of cash every quarter, so I think it could explore the option of initiating one once it's done

expanding and updating its fleet.

WestJet Airlines Ltd.

WestJet Airlines is the second-largest airline company in Canada. Its stock has risen about 6% year-to-date, including an increase of less than 1% since it released its first-quarter earnings results on May 3. Here's a breakdown of eight of the most notable statistics from the report compared with the year-ago period:

1. Net earnings decreased 37.7% to \$87.6 million
2. Diluted earnings per share decreased 34.9% to \$0.71
3. Revenue decreased 4.8% to \$1.03 billion
4. Passengers carried increased 8.4% to 5.33 million
5. Earnings before taxes decreased 35.5% to \$124.2 million
6. Operating income decreased 37.5% to \$123.3 million
7. Cash provided by operating activities decreased 13.9% to \$222.1 million
8. Added 19 aircraft to its fleet, bringing its fleet size to 145

At today's levels, WestJet's stock trades at 9.4 times fiscal 2016's estimated earnings per share of \$2.30 and nine times fiscal 2017's estimated earnings per share of \$2.39, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.8 and the industry average multiple of 12.9.

In addition, WestJet pays quarterly dividend of \$0.14 per share, or \$0.56 per share annually, which gives its stock a yield of about 2.6%. It is also important to note that it has raised its annual dividend payment each of the last five years.

Which is the better buy today?

Here's how each company ranks when comparing their first-quarter earnings results, their stocks' valuations, and their dividends:

Metric	Air Canada	WestJet Airlines
Q1 Earnings Strength	1	1
Forward P/E Valuations	1	1
Dividend	2	1
Average Ranking	1.33	1

As the chart above depicts, both companies reported weak first-quarter earnings results, and their stocks both trade at attractive forward valuations, but WestJet takes the win in this match up because it has the added benefit of a 2.6% dividend yield, and because it has consistently grown its dividend over the last several years.

With all of this being said, I think both stocks represent great investment opportunities, so Foolish investors should strongly consider beginning to scale in to long-term positions in one of them over the next couple of trading sessions.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AC (Air Canada)

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