



WestJet Airlines Ltd.: Growing in a Difficult Market

Description

WestJet Airlines Ltd. (TSX:WJA) crossed a major milestone in the airline industry recently by commencing non-stop flights to London from Vancouver, Calgary, Edmonton, Winnipeg, Toronto, and St. John's. The Vancouver-to-London flight in particular is a flight that is over nine hours, and it's currently only offered by small select few airlines.

What exactly does this mean for the company? Let's take a look at the company's vitals as well as what investors can expect moving forward.

WestJet currently trades at \$21.07—up just over 3% for the year. The stock has dropped by nearly 22% over the past 12-month period, but over a longer period of five years the company is up by 47%. In the most recent quarter the company saw earnings dip sharply by 38%, earning only \$0.71 per share, which led to good portion of the plunge the stock has seen in recent weeks.

All around weakness in the Albertan economy was one of the primary reasons for the weak results, which the company has since minimized by re-routing planes and some routes to other parts of the country where demand is still strong.

WestJet's passenger traffic is on the rise

WestJet announced that last month it flew a record number of passengers. For the month of May the company transported 1.8 million passengers, which represented a year-over-year increase of 9.6%. Over the same period WestJet expanded capacity by 8.4% as well.

One measure that airlines use to measure traffic is the load factor, which is essentially the ability of airlines to fill seats. In May WestJet announced a load factor of 81.4%, which—considering countless external factors such as the weakened state of the Albertan economy and the fires that were in the Fort McMurray region—is actually quite impressive.

As encouraging as the traffic numbers are, the economy is still in a weakened state, but that hasn't stopped the company from looking at further expansion.

WestJet is considering larger aircraft and new routes

WestJet currently operates for the most part using the **Boeing** 737 aircraft. The company is in the midst of a fleet renewal, which will see older aircraft replaced with the new 737 Max line of jets, which are not only newer, but more efficient and, in some cases, larger.

WestJet's order for the 737 Max is for 65 planes, of which, 25 will be the smaller Max 7 variant and 40 will be for the larger Max 8 aircraft. Delivery of the larger aircraft is to begin next year with the smaller aircraft coming a year after that.

WestJet's recent expansion to international markets is more than likely just the beginning of more routes to come. The company hasn't been coy about investigating additional routes to add; additional European and even some Asian locations have been mentioned in the past as ideal expansion points.

In my opinion, WestJet remains a valid investment for those investors looking for long-term growth. The company has solid financials and is expanding well in a difficult segment that has few competitors—none of which can compete with WestJet on price. The current dip in the stock price should be interpreted as more of a discount on a good long-term investment opportunity.

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