Attention: Canadian Airlines Could Save Over $100 Million Next Year

Description

Canadian airlines may be in for a massive windfall. On July 18, Nav Canada—the air traffic control company that charges airlines for taking off, landing, and flying through Canadian air space—decided to lower its fees starting at the end of this year. In total, the move impacts roughly 12 million flights, saving airlines up to $100 million a year in annual operating costs.

“Strong traffic growth, coupled with cost controls and targeted strategic investments in the air navigation system, have put us in a position to deliver savings to customers while increasing our planned investments in people, technology and facilities,” an executive for Nav Canada said.

Which companies are set to benefit most?

Two airlines to watch

Since 2006 Nav Canada has cut its fee levels three times, providing an immediate margin boost for airlines operating in Canadian airspace. The largest beneficiaries should be companies heavily exposed to the country such as **Air Canada** (TSX:AC)(TSX:AC.B) and **WestJet Airlines Ltd.** (TSX:WJA).

Air Canada has seen a huge drop in costs recently. Last quarter it experienced a 26% drop in fuel costs, boosting profits by $183 million. If oil moves higher, however, the company could get an even bigger boost because elevated energy prices would help strengthen the loonie. In recent years Air Canada has been hurt by the falling loonie in a few ways.

First, it buys fuel, airplanes, and airplane parts in U.S. dollars, even though much of its revenues is denominated in Canadian dollars. So purchasing goods and services to run the business is costing more and more Canadian dollars, even though its revenue base isn't increasing at the same rate.

The company also prices most of its financing in U.S. dollars. With a weak loonie, Air Canada needs to convert increasing amounts of Canadian dollars to pay the same amount in U.S. interest payments. It's no wonder that last quarter it reported $105 million in additional operating expenses resulting from a weak Canadian dollar.

The latest fee decrease could just add to Air Canada's margin expansion should oil prices and the loonie move higher.

WestJet is also positioned well to create shareholder value.

The company's $1.5 billion in total debt is nearly completely offset by more than $1.4 billion in cash and short-term investments. While revenues have been pressured due to weakness in Alberta, its home market, the fact that a majority of its routes touch Canadian cities means that it will benefit disproportionately from the Nav Canada fee decrease. It already has costs that are approximately 25% less than Air Canada, so its margins could move towards being the best in the industry.

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1. TSX:AC (Air Canada)

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