



Is WestJet Airlines Ltd. Set to Fly Higher on Older Wings?

Description

WestJet Airlines Ltd. (TSX:WJA) started flying to London Gatwick this past May from six Canadian cities, finally bridging the gap between the low-fare domestic airliner and the transcontinental carrier the company aspires to be.

At least that's what the company was hoping for.

Since commencing the new routes to London this past May, WestJet has been the subject of an inordinate number of complaints from passengers who have been met with substantial delays and inconveniences.

Delays are commonplace for airliners adopting new planes until the airline gets a better understanding of the maintenance involved and acquires the parts needed to repair the jets. WestJet's adoption of the Q400 turboprop plane several years ago was met with similar growing pains for both the airliner and customers. One difference with the new wide-body jets that WestJet has serving the new long-distance route to London, however, is the disturbingly old age of the fleet.

WestJet is using Boeing 767's that have an average age of over 20 years. The jets were originally intended to serve as a stop-gap for the airline, with WestJet looking to purchase new jets from either **The Boeing Co.** or Airbus within the next few years. If the delays over the past two months are any indication of what lies in store, WestJet may have to start shopping sooner than anticipated for those replacement jets.

CEO Greg Saretsky recently summed up the problem the airline is facing with the new jets: "We're finding that when things break, because some of the parts are so old, we don't have them in store ... and then it's taking two or three days to get these things. We don't want to keep them in stock because they break once every 20 years."

What delays mean for WestJet

While delays are commonplace in the aviation industry, WestJet has truly been the subject of more than a fair share of delays recently. If the fallout from disgruntled customers is not enough, E.U.

regulations stipulate that airlines are liable to compensate customers for significant delays of over three hours when departing London.

That delay compensation could amount to \$800 per passenger, or, in the case of a fully loaded 767, \$225,000 in compensation that WestJet has to pay. That could get very expensive for the airline. Suddenly the reduced price (over new planes) for aging 767s doesn't seem like that much of a deal anymore.

Is WestJet still a good investment?

WestJet's international routes represent only a small amount of the total air traffic the company has, which is still very much in a start-up mode. The problems WestJet is having with the jets will be resolved, and the company will get better at maintaining the departure schedules for those flights.

On the whole, WestJet is coming off a quarter where profits fell by 38%, beating the bruising that analysts had projected. The airline was hit hard with the slowdown in Alberta, but it has managed to re-route traffic to other parts of the country.

In my opinion, WestJet is still a great long-term option for investors. The company has shown resilience to overcoming obstacles in the past and will continue to do so with the international routes. The fact remains that WestJet has entered a new market with larger planes, and if the company stays the course, there could be significant revenue gains for years.

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