



Why WestJet Airlines Ltd. Is up 1% Today

Description

WestJet Airlines Ltd. (TSX:WJA), the second-largest airline company in Canada, announced its second-quarter earnings results this morning, and its stock has responded by rising about 1%. Let's take a closer look at the quarterly report to determine if we should be long-term buyers of the stock today or if we should wait for a better entry point in the trading sessions ahead.

A quarter of mixed growth

Here's a summary of 12 of the most notable statistics from WestJet's second quarter ended on June 30, 2016, compared with its results in the same period a year ago.

Metric	Q2 2016	Q2 2015	Change
Net earnings	\$36.65 million	\$61.55 million	(40.5%)
Diluted earnings per share	\$0.30	\$0.49	(38.8%)
Guest revenues	\$814.4 million	\$828.91 million	(1.8%)
Other revenues	\$134.91 million	\$113.09 million	19.3%
Total revenues	\$949.31 million	\$942.0 million	0.8%
Operating expenses	\$887.89 million	\$841.61 million	5.5%
Earnings from operations	\$61.43 million	\$100.39 million	(38.8%)
Operating margin	6.5%	10.7%	(420 basis points)
Operating cash flow	\$144.67 million	\$130.13 million	11.2%
Segment guests	5.30 million	4.96 million	7%
Load factor	80.8%	78.1%	270 basis points
Fleet size at end of quarter	148	129	14.7%

Dividend? Yes, please!

WestJet also announced that it would be maintaining its dividend of \$0.14 per share in the third quarter, and it will be paid out on September 30 to shareholders of record at the close of business on

September 14.

What should you do with WestJet's stock now?

It was a decent quarter overall for WestJet given the continued economic weakness it has faced in Alberta, so I think its stock has responded correctly by only moving slightly higher on the news. With this being said, I think the stock represents a great investment opportunity for the long term for two reasons in particular.

First, it's undervalued. WestJet's stock trades at just 9.8 times fiscal 2016's estimated earnings per share of \$2.35 and only 9.5 times fiscal 2017's estimated earnings per share of \$2.43, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 11.6. The company has also been actively repurchasing its shares, which shows that it believes its stock is undervalued too, and these repurchases will boost its earnings-per-share growth potential going forward.

Second, it has a great dividend. WestJet currently pays an annual dividend of \$0.56 per share, which gives its stock a solid yield of about 2.4%. It has also raised its annual dividend payment for five consecutive years, and its ample amount of operating cash flow could allow it to continue this streak in 2016 by announcing a slight hike when it reports its third-quarter earnings results in November.

With all of the information provided above in mind, I think Foolish investors who do not have exposure to the airline industry should strongly consider beginning to scale in to long-term positions in WestJet Airlines today.

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