



3 Signs WestJet Airlines Ltd. Is Evolving

Description

I've always been an admirer of the airline industry.

If we recall Warren Buffett's now infamous quote relating to his previously long-held disdain for airline investments, the fact that airlines such as **WestJet Airlines Ltd.** (TSX:WJA) have prospered over the past decade is a testament to the industry's evolution into a viable business model. In fact, the Oracle of Omaha himself has reversed his position on airline investments and has now invested over \$5 billion into some of the largest airlines in the U.S.

WestJet has been historically regarded as the little airline that could, particularly when sized up against its larger rival, **Air Canada** ([TSX:AC](#))(TSX:AC.B). WestJet's growing domestic and cross-border network was always seen as secondary to Air Canada's sprawling and lucrative international network.

That may soon change.

Through a series of recent announcements, WestJet is piecing together a compelling alternative to challenge Air Canada and others. Here's what investors need to know.

WestJet learned a valuable lesson in long-haul operations

Over the past year, WestJet commenced regularly scheduled trans-Atlantic service to several points in Europe, effectively breaking into the international market. At the time it announced the new routes, the airline also noted it would be leasing larger Boeing 767 aircraft to fly those longer routes.

WestJet also said it intends to keep fares lower, offering a compelling alternative to travelers flying to Europe.

Unfortunately, those 767s were older models; they were often delayed, required additional maintenance, and were generally inefficient options for long-haul flights.

WestJet is upping its fleet

This week WestJet announced an order of 10 Boeing 787-9 aircraft, commonly known as the Dreamliner. The Dreamliner is the latest aircraft offering from **The Boeing Company**; it is a long-range, highly efficient jet made mostly of composite materials.

The Dreamliner deal opens a range of expansion opportunities for WestJet. The 14,000 km range of the Dreamliner would put Asian, South American, and European cities firmly within range of WestJet's main hub cities, which was echoed in a statement by WestJet CEO, Gregg Saretsky: "Now, with the most sophisticated commercial airliner available, we turn our attention to further growing our international presence."

When WestJet announced trans-Atlantic service two years ago, Saretsky hinted the company would offer additional routes in Europe, South America, and Asia over time. With this latest announcement, WestJet may just make good on that promise.

The first WestJet Dreamliners are set to enter service in two years with all 10 planes set to be delivered by 2021. WestJet also has an option for an additional 10 Dreamliners

WestJet is prepping a ULCC

ULCC, or ultra-low-cost carrier, is the phrase applied to airlines operating at the lowest end of the industry in terms of costs and fares. Margins are razor thin, and ULCC airlines will charge for, or omit altogether, anything from checked luggage and beverages to using overhead storage space or even seat selection.

While WestJet isn't exactly an ULCC per se, the carrier is historically perceived as being a low-cost carrier. That image, it would seem, is something the airline is attempting to shake off or, more appropriately, to pass off to a new startup that WestJet plans to launch later this year which will be a ULCC.

While there's an argument to be made over the efficacy of a ULCC network in Canada as opposed to in Europe and the U.S., where those models can thrive, this latest move by WestJet is an encouraging one.

This ULCC could act as a feeder airline for the much-evolved WestJet to take passengers to their destinations in Europe, Asia, or South America.

Where does this leave investors?

This is an exciting time for airlines and airline-minded investors. Airlines are enjoying their longest period of growth in well over a decade, and unlike in past growth spurts, airlines are being conservative in their spending habits to ensure that a downturn in the economy will not hinder long-term goals.

WestJet is no exception. Over the past five years, the stock has shot up over 45%, and the latest announcements by the company should fuel further growth over the long term.

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