



Why Air Canada Is a Better Long-term Play Than WestJet Airlines Ltd.

Description

In the battle of the two largest Canadian airlines, what has determined which company is a better investment over time appears to have changed. In the past, the discussion typically centred on the fact that **Air Canada** ([TSX:AC](#))(TSX:AC.B) was the government-protected airline with a large infrastructure and unionized environment.

Sluggish, outdated, and not as friendly as its competitor **WestJet Airlines Ltd.** (TSX:WJA) customers could expect to get inferior service and a standardized, cookie-cutter experience. Certainly, WestJet's "employees are shareholders" model won the hearts and minds of investors for some time with WestJet trading at a premium to Air Canada — a premium which still exists today.

Two weeks ago, WestJet pilots broke the mould and [voted to unionize](#). Something that seemed so out of the question not too long ago became a reality, and with it, the biggest competitive advantage the aerospace company had disappeared overnight.

Years of branding and customer awareness toward WestJet's customer-first, employee-friendly model is being questioned. While only pilots have voted to unionize as of right now, the effects are likely to have an impact on the business's bottom line moving forward.

In the case of most major airlines around the world, pilot unions (specifically, contract negotiations between the unions and management) have had devastating bottom-line effects for airlines over time due to the massive power these unions have over the ability of airlines to turn a profit. Planes need pilots to fly, and the union's bargaining power is complemented by the fact that any shutdown or work stoppage for any period of time, can have a tremendously negative effect on an airline's revenue and earnings numbers. Any collective bargaining dispute could cost airlines billions of dollars of profit, lost market share, and decades of customer goodwill.

While I believe that WestJet's premium likely has been deserved over the years, primarily due to the fact that the company maintained an ununionized environment, this recent development has made me think about whether or not the valuation differences based on fundamentals still make sense for WestJet and Air Canada. I also wonder why the gap has not yet narrowed more

significantly between the two airlines.

Bottom line

Given Air Canada's market dominance for both domestic and international flights in Canada, I believe that the large valuation discrepancy between the two airlines is largely unwarranted. Air Canada was, in my opinion, cheap before the unionization vote; however, now I believe Air Canada carries with it a far greater long-term value than WestJet moving forward.

Now may be the time to consider an investment in Air Canada. It's just too dang cheap to ignore right now.

Stay Foolish, my friends.

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