



Will Unionization Stop WestJet Airlines Ltd. From Flying Higher?

Description

WestJet Airlines Ltd. (TSX:WJA) has been relatively flat over the past year, while its cheaper peer **Air Canada** ([TSX:AC](#))(TSX:AC.B) flew high during the same time span. It looks like WestJet is still the pricier of the two airline stocks, but is there any reason the average investor should consider WestJet over Air Canada at this point?

The company is firing on all cylinders right now with international expansion plans and a super-low-cost carrier, which are both underway. These growth plans sound promising and could launch WestJet into the atmosphere. Although WestJet is flying in the right direction, it appears that unionization may be the headwind that may partially offset its growth tailwind.

WestJet pilots recently had a successful bid to unionize, and it appears that flight attendants are also looking to do the same. The company has spent a great deal on marketing initiatives to make consumers aware that WestJet offers top-notch customer service while being friendly to its employees. The recent unionization moves may put a tarnish on the company's reputation of being employee friendly, and the stock could face some pressure on its bottom line going forward.

Unions have the upper hand when it comes to negotiations, and work stoppages could suddenly happen if pilots believe they are not being treated fairly. WestJet's loss of bargaining power and the potential for work stoppages are definitely negatives that will put a dent in the company's long-term earnings.

The stock of WestJet has a "no union" premium associated, so it's not surprising that the stock has been a laggard compared to the likes of Air Canada over the past year.

Going forward, WestJet is going to continue with its growth plans while the unionization headwinds drag on the stock. The airlines are going through a cyclical upswing, and I believe WestJet will be higher over the medium term, even with the unionization.

All of the airlines are ridiculously cheap right now, and I think any medium-term investor will be able to cash in on capital gains over the next year or so as the Canadian and American economies continue to strengthen thanks to President Trump's pro-business policies.

WestJet currently trades at a 10.5 price-to-earnings multiple, a 1.3 price-to-book multiple, and a 0.6 price-to-sales multiple, all of which are considerably lower than the company's five-year historical average multiples of 11.4, 1.8, and 0.8, respectively.

The company is dirt cheap right now, even with its ambitious growth plans. Although unionization is a negative, I believe the company will do well in the long run. Investors who are bullish on the overall economy will most likely see a great deal of capital appreciation over the next few years.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Date

2025/09/17

Date Created

2017/06/16

Author

joefrenette

default watermark

default watermark