



## What Does a ULCC Delay Mean for WestJet Airlines Ltd.?

### Description

**WestJet Airlines Ltd.** (TSX:WJA) is learning the ropes of what it means to be a large airline.

WestJet is well known for operating an impressive network of domestic and cross-border routes and, more recently, adding trans-Atlantic routes. Adding those lucrative international routes were, in many ways, the evolution of the carrier that was once regarded as a discount carrier into a full-fledged airline.

Competition on trans-Atlantic routes is fierce, but the rewards are great. WestJet quickly learned those rules, as a slew of growing pains in the first few weeks saw planes delayed or rerouted multiple times.

As WestJet continued to push into the realm of intercontinental travel, WestJet also announced plans to create a ULCC (ultra-low-cost carrier) to capitalize on the growing domestic and cross-border market as well as act as a feeder airline for WestJet.

### More fees, less service

ULCC airlines exist at the lower end of the airline industry and typically offer low fares that are offset by plenty of fees. Examples of this model include paying extra for cabin baggage, refreshments, seats with more space, entertainment options, and food; it's even considering charging passengers a fee for the privilege of using the onboard lavatory.

ULCCs operate in abundance in both Europe and the U.S., where a string of densely populated cities all within a few hours' flying time can be connected.

ULCCs haven't really been an option in Canada until recently. The Canadian cities that could support a ULCC are, for the most part, several hours away, which would require larger planes, more crew, and higher costs.

By including cross-border traffic, however, a ULCC could establish hubs to draw in travelers from surrounding areas. One example is Buffalo, NY, which could, in theory, draw in passengers from the GTA, the Niagara region, and all of northwestern NY.

WestJet has earmarked the market size at nearly 10 million passengers.

### **The ULCC will have to wait**

As intriguing an opportunity as that sounds for WestJet, the company recently followed up on the ULCC announcement, stating that the initial goal of setting up the ULCC by the end of this year will now be delayed until the second half of next year.

WestJet noted that despite the airline beginning to take the requisite steps to set up the ULCC, there was still a significant amount of work to be done. WestJet had initially planned to hire new crews to operate the fleet of 10 **Boeing** 737-800s and has already established the leadership team around the new airline and applied for the required air operator's certificate.

Another wrinkle is the ongoing unionization effort at WestJet. Earlier this spring, WestJet pilots voted in favour of joining the Air Line Pilots Association, and unions representing other airline employee segments are in the process of appealing to WestJet employees as well.

While not directly impacted by the ULCC creation, the ongoing unionization movement will draw resources away from the ULCC venture.

### **What does this mean for WestJet investors?**

WestJet, like much of the airline industry, remains a great investment opportunity. WestJet's international venture is only just beginning, and the company hasn't been coy about expanding into other markets — specifically Asia, which is underserved from a number of North American markets.

WestJet's ULCC venture is a natural evolution of the company, and provided the routes for the new airline are not in direct competition with WestJet's own domestic network, the ULCC should prove successful when it launches next year.

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