



Which Airline Is the Better Buy After Q2 Earnings: Air Canada or WestJet Airlines Ltd.?

Description

Last week, many big Canadian companies posted quarterly earnings, including two of the biggest airlines in Canada. Both companies did well, and both saw their stock prices improve as a result. But which airline did better, and which has a brighter future?

I'll compare the earnings results of both **WestJet Airlines Ltd.** (TSX:WJA) and **Air Canada** ([TSX:AC](#)) to assess which company is the better investment going forward.

Sales growth

In its most recent quarter, Air Canada's sale rose 13% year-over-year and also increased for the second consecutive period. The company has also seen revenues rise in each of the last four years and totaled just under \$15 billion in sales for 2016.

WestJet also saw year-over-year revenue rise by 11%, however its Q2 revenue was down over 5% from Q1. On an annual basis, the company has also seen a consistent rise in revenue every year.

Profitability

Previous to Q2, Air Canada was in the red for the two previous quarters and, overall, has failed to sustain any real profit growth from one quarter to the next. However, in each of the past five years, Air Canada has been able to produce a profit.

WestJet has posted a profit in each of the past five quarters, although not without variability. Although in 2016 the company was not able to build on 2015's impressive results, the prior three years all saw profits grow year-over-year.

Valuation

WestJet currently trades at 11 times its earnings and only 1.4 times its book. The company is modestly valued and the low multiples suggest it could make a good value investment.

Air Canada trades at only seven times earnings but at a hefty 4.9 times book value. Although price to earnings is low, the book value of the company is lagging behind, likely a direct result of the company's inability to maintain profitability.

Overall, WestJet has a more reasonable valuation for its stock price even though the company has a higher earnings multiple. Higher multiples are acceptable if there is a reason behind the premium. In the case of WestJet, the company has been more consistent in producing profits than Air Canada and as a result is more likely to profit from any incremental sales.

Stock performance

Air Canada is trading at an all-time high since its strong quarter propelled the stock above \$21 a share. Year-to-date the company's stock has yielded a return of over 58%. It is hard to see much more upside from a share that has already seen so much success this year despite not making any revolutionary changes to its future.

WestJet has also recently reached its 52 week high but the stock is nowhere near its all-time high. Year-to-date the stock has produced a return of 12%. WestJet's stock appears the more likely of the two to continue its trajectory upward and as a result has more opportunity to produce returns from the current price point.

Bottom line

WestJet looks to be the better performer overall, with Air Canada only doing better when it comes to sales. Sales growth alone is not the most important factor, especially if you cannot translate those sales into profits. My choice is WestJet because of the company's consistency to produce profits and because the stock still has more room for upside.

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