



Why WestJet Airlines Ltd. Could See Another Strong Quarter Next Month

Description

WestJet Airlines Ltd. (TSX:WJA) has had a strong 2017 performance as the airline's share price has risen over 11% year to date, with most of that increase coming in the past three months. WestJet and **Air Canada** have both benefited from increased demand in Q2, which resulted in good earnings results for both airlines and propelled stock prices to new highs for the year. Since reaching a high of just under \$27 a share, WestJet has seen its stock give back some of those gains.

However, there is reason to believe Q3 could see demand continue to be strong, which is likely to result in a further incline in WestJet's share price, and that makes it a good buy today.

Utilization rates are up in the past two months

The company recently announced its traffic results for August, which showed an increase in the airline's load factor from 86.5% a year ago to 90.6% last month. Load factor is a measure of utilization; the higher the percentage, the closer to capacity the airline has been operating at and could indicate a strong performance.

In July, the airline also saw its load factor improve, but by a smaller increase of just 0.4 percentage points. If September is able to continue the trend, then we may see a phenomenal quarter for WestJet.

Traffic continues to increase

Revenue passenger miles (RPMs) is a metric that looks at how many miles paying customers have traveled and is calculated simply by multiplying paying customers by miles traveled. In August, the RPMs for WestJet increased by 10.6% from a year ago, and year to date that figure is up over 8%.

The company also announced it made a new all-time record with 2.3 million guests being flown in the month. This is an impressive feat for the airline, especially when you consider increased competition from new entrant Flair Airlines, which was expected to cut into WestJet's market share. However, the airline has proven to be resilient and has been able to perform well despite the new threat.

What this mean for investors

With load factor and RPM both showing good increases from a year ago, it might be a good time to buy the stock ahead of the company's earnings release next month. A strong performance in Q3 could see the stock's share price rise and could continue to reach new highs.

As long as the price of oil remains stable and doesn't increase, the company will also be able to continue to pad its bottom line from the increasing traffic.

Although the company saw just 2% sales growth in 2016, in its last quarter, revenues were up over 11% and profits rose by 30%. Unless September is an absolutely awful month, you can expect another strong quarter from the company. Any time you heard the words *record* and *all-time* in the same sentence, it's usually safe to assume the results will be good.

As the economy improves and travelers have more disposable income, travel will only continue to climb, and without much competition, WestJet will be a big benefactor of that increase in spending.

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