



## Why Is WestJet Airlines Ltd. Lagging Behind Air Canada?

### Description

**WestJet Airlines Ltd.** (TSX:WJA) has arguably been one of the biggest laggards in the airline space over the past year. Although shares of WestJet have appreciated by ~9% this past year, many other airlines, like **Air Canada** ([TSX:AC](#))(TSX:AC.B) have soared by over 160% in the same time span.

The airlines have been high flyers of late, and even Warren Buffett has gotten in on the action by buying and holding shares of U.S.-based airlines. Buffett has made his distaste for the airlines public many times in the past, but the value and opportunity were just too great to pass on.

While other airlines flew ridiculously high, WestJet has yet to take off. Will WestJet soar at the same magnitude of its peers? Or will it remain a laggard until the next cyclical downturn?

### Solid Q2 2017 earnings beat, but ROIC is on a downward spiral

In Q2 2017, WestJet clocked in an EBITDAR of \$218 million, beating analyst expectations of \$204 million. The company delivered a solid earnings beat with a \$0.41 EPS versus the \$0.29 consensus. Despite the promising beat, shares of WJA are still not soaring to the magnitude of many of its peers, which have delivered far superior numbers over the past few quarters.

In addition, WestJet has seen its ROIC decrease to 7.23% over the last year, the lowest it has been since 2011. Meanwhile, Air Canada has delivered a promising 15.5% ROIC over the past year. WestJet's management team is shooting for a ROIC as high as 16%, but it appears to be a tough task as the company has experienced three straight quarters of ROIC declines. Part of the declines can be partially attributed to the weak Albertan economy and the fact that WestJet has been spending a considerable amount of beefing up its fleet.

### Bottom line

Despite strong cyclical tailwinds in the airline industry, WestJet hasn't really been able to capitalize on the huge opportunity relative to its peers. The company appears to be overexposed to Alberta, which I believe will continue to be a huge drag going forward. Although the management team believes it can pick its game up, I think WestJet's exposure to Alberta will lead to sub-par returns relative to peers like

Air Canada, which have been smoking hot of late.

In addition, shares of AC are also cheaper than WJA on a price-to-earnings basis. For that reason, I'd recommend that investors who are keen on owning an airline opt for AC over WJA. Personally, I'm on the sidelines because I believe the easy money has already been made.

Stay smart. Stay hungry. Stay Foolish.

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