



## Air Canada vs. WestJet Airlines Ltd.: Which Stock Has More Growth Potential?

### Description

Investors who picked airline stocks at the start of this year made a great decision.

Look at **Air Canada** ([TSX:AC](#))(TSX:AC.B) stock. After soaring 125%, it won't be stopping its flight anytime soon.

**WestJet Airlines Ltd.** (TSX:WJA), another Canadian operator, has delivered three times more gains this year when compared to the benchmark S&P/TSX Composite Index. In the U.S., Dow Jones U.S. Airline Index hasn't done bad either. It rose 35% in 2017 against the S&P 500's 18% climb.

These gains are backed by strong fundamentals, as the airline industry becomes more efficient with fewer unsold seats, due to its ability to monetize its amenities that were once free.

These improvements coupled with a stronger economy in North America have helped these airlines to get out of the "death trap" that Warren Buffett found them in back in 2013.

Now, **Berkshire Hathaway** has become one of the industry's biggest investors, helping to build this great rally in airline stocks.

For Canadian investors, both Air Canada and WestJet offer an attractive investment opportunity, despite their recent gains. These two airlines control about 90% of the market. Let's find out which one might be the better option for you.

### Growth potential

Many analysts have recently raised their targets on Air Canada shares, showing confidence in the company's financial strength and its turnaround plan.

Air Canada is targeting to increase its margins between 17% and 20% and projected free cash flow of up to \$3 billion by the end of 2020.

Air Canada estimates it will add between \$2 and \$2.5 billion in value once it launches its own loyalty program after it decided to end its partnership with Aeroplan.

These new targets come on the heels of fantastic second-quarter results. During that quarter, passenger traffic grew 13.6%, boosting Air Canada's revenue by 12% to \$3.52 billion.

Air Canada's net income rose 63%, or \$1.08 per diluted share, in the three-month period from \$0.66 per diluted share a year ago.

WestJet is on a similar growth trajectory. While announcing its quarterly load factor last week, the company said its planes were 86% booked from July to September, the highest in its 21-year history. In the third quarter, the airline flew a record 6.5 million guests, up 11%, or 630,000 passengers, from a year ago.

### **Which one you should buy?**

There is no doubt both stocks have a great momentum backed by positive factors, such as low fuel prices, rising travel demand from emerging markets, and strong growth in North America.

Analysts are expecting about ~15% upside potential for Air Canada stock from its current price of \$27.7 a share in the next 12 months. But more aggressive estimates suggest that the stock could touch \$70 a share if the company is able to meet the top end of its financial forecast in the next couple of years.

WestJet stock is touching the 52-week high and has reached its 12-month consensus estimate of \$27.19.

Going forward, the company could surprise on the upside, especially when it has embarked on a very aggressive expansion, including its launch of a new ultra-low-cost carrier Swoop, major international expansion using large aircraft, and ongoing growth of its core operations. The stock also pays 2% annual dividend yield.

I am bullish on both airlines, which are likely to provide good returns on your dollars if invested for long term.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:AC (Air Canada)

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**Date**

2025/07/06

**Date Created**

2017/10/17

**Author**

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