



WestJet Airlines Ltd. Reports Record Q3 Earnings: Time to Buy?

Description

WestJet Airlines Ltd. (TSX:WJA), Canada's second-largest airline company, reported record third-quarter earnings results Tuesday morning, but its stock responded by falling about 0.5% in the day's trading session. Let's break down the results and the fundamentals of its stock to determine if we should be long-term buyers today.

Increased passenger traffic leads to record earnings

Here's a summary of 12 of the most notable financial statistics from WestJet's three-month period ended September 30, 2017, compared with the same period in 2016:

Metric	Q3 2017	Q3 2016	Change
Guest revenues	\$1,047.81 million	\$988.33 million	6.0%
Other revenues	\$167.78 million	\$136.01 million	23.4%
Total revenues	\$1,215.59 million	\$1,124.34 million	8.1%
Earnings from operations	\$201.85 million	\$170.13 million	18.6%
Operating margin	16.6%	15.1%	150 basis points
Earnings before income taxes	\$194.36 million	\$162.56 million	19.6%
Net earnings	\$138.43 million	\$115.97 million	19.4%
Net earnings per diluted share (EPS)	\$1.18	\$0.97	21.6%
Operating cash flow	\$369.73 million	\$277.04 million	33.5%
Free cash flow	\$151.49 million	\$126.45 million	19.8%
Segment guests	6,530,873	5,900,967	10.7%
Load factor	85.7%	84.0%	170 basis points

What should you do now?

It was a fantastic quarter overall for WestJet, which included quarterly records for both net earnings and load factor, and its earnings beat the consensus estimate of analysts polled by **Thomson Reuters**

, which called for \$1.14 per share. That being said, I think the market should have responded by sending WestJet's stock higher in Tuesday's trading session, and I think it represents a great investment opportunity for the long term for two fundamental reasons.

First, it trades at attractive valuations. WestJet's stock is up about 17% year to date, but it trades at just 10.9 times fiscal 2017's estimated EPS of \$2.47 and only 9.2 times fiscal 2018's estimated EPS of \$2.93, both of which are inexpensive compared with its five-year average multiple of 11.1; these multiples are also inexpensive given its estimated 10.1% long-term earnings-growth rate.

Second, it has a great dividend with room for growth. WestJet currently pays a quarterly dividend of \$0.14 per share, equating to \$0.56 per share on an annualized basis, which gives it a respectable 2.1% yield. Investors must also note that the airline company has raised its dividend five times since 2010, and I think its very strong growth of operating cash flow, including its 29.9% year-over-year increase to a diluted \$6.90 per share in the first nine months of 2017, could allow it to announce another hike at some point in 2018.

With all of the information provided above in mind, I think WestJet Airlines represents a great long-term investment opportunity, but I must add that I [prefer Air Canada](#) today.

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