



WestJet Airlines Ltd.: Swoop Has Some Fierce Competitors in the ULCC Market

Description

WestJet Airlines Ltd. (TSX:WJA) is set to enter the ultra-low-cost-carrier (ULCC) market with Swoop, which will offer fares ~40% cheaper than your average Canadian airfare. Many pundits believe that WestJet's entry into the ULCC market will give the company a [competitive edge](#), as Swoop takes the skies next summer. But with other ULCC competitors breathing down Swoop's neck, WestJet may be in for a more turbulent time than originally anticipated.

Why is ULCC such a big deal?

As an investor, it can be excruciatingly painful to invest in the airlines. While they can be terrific medium-term investments during a cyclical upswing, shares of all airlines usually surrender a majority of their gains once an economic downturn presents itself.

Consumers simply can't afford to go on flights during times of recession, and travel is usually the easiest expense to cut when you're on a tight budget. That's why I'm not a huge fan of airline stocks as a long-term holding. The ride up may be exciting, but when it comes to airline stocks, what goes up must come down. And once airline stocks are down, they usually stay down and struggle to rebound for many years.

With ULCC, consumers can purchase their seats on a flight at nearly half the price. While many consumers may be willing to pay up for legroom and the other services that come with a flight, it's likely that many Canadians, especially the ones on the fence about purchasing flight tickets, would take the cheapest option, even if that means several hours of extreme discomfort and boredom.

Of course, once you purchase discounted tickets on an ULCC, you can always add features, but you'll likely be paying a hefty premium. But the fact of the matter is, the lower prices of ULCCs will likely [dampen the cyclical effects](#) that come with owning an airline.

Who knows? One day ULCCs may even be able to hold their own in the event of a recession, which has typically been an absurd concept in the past.

Swoop is a smart move by WestJet, but competition will be heated

The incoming Swoop launch is a very positive development for WestJet investors, but there's going to be competition as new ULCCs enter Canadian airspace.

Canada Jetlines Ltd. (TSXV:JET) is another ULCC which is set to launch next summer alongside Swoop. Stan Gadek, CEO of Canada Jetlines, claims that Swoop won't be able to match the low cost of its airline; its average prices will be below \$100. Gadek also said that "WestJet's creation of a Swoop division just won't cut it."

Canada Jetlines is a ridiculously small business that will expand at a slower rate than Swoop, at least in the first few years. Canada Jetlines will have four **Boeing 737** aircraft at launch versus Swoop's six, and it's likely that Swoop will add additional aircraft at a quicker rate over the years.

Should demand heavily outweigh the number of available seats (I think it will), Swoop will likely have the advantage of being able to scale up quicker than Canada Jetlines or any other ULCC competitors looking to enter the market. Gadek claims Canada Jetlines will ultimately offer the cheaper flight, but we'll have to wait and see if Swoop is able to further decrease prices as a response to rising competition.

There's no doubt that competition in the ULCC space is going to be fierce, but in the end, that's a good thing for Canadian travellers!

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