Will Airline Stocks Continue to Soar in 2018?

Description

Canadian airline stocks have surged in 2017 on terrific quarterly earnings and an industry that appears to be going nowhere but up. Airlines saw record passenger traffic, and demand for international and regional flights is growing. In a July article, I discussed growth in the airline industry and how rise in demand was even putting strains on airlines in being able to find enough pilots.

But will 2018 yield similar results for airline stocks? Let's take a look at three stocks investors should keep their eyes on.

Bombardier, Inc.

The Montreal-based multinational **Bombardier, Inc.** (TSX:BBD.B) has had a volatile year. A months-long spat with **Boeing Co.** appeared to be heading for disaster for the company after 300% duties were imposed by the U.S. Department of Commerce. However, European multinational Airbus SE came to the rescue in October by purchasing a majority stake in Bombardier's CSeries passenger jet. Airbus and Bombardier have plans to move construction to an Alabama facility to avoid the duties.

On November 15, Bombardier announced that it expects to hire 1,000 workers in Montreal over the next 18 months as it ramps up production on its Global 7000 business jet. The announcement should alleviate concerns that the Airbus deal would have negative ramifications for Bombardier's domestic workforce. Bombardier stock has now increased 42.6% in 2017 as of close on November 16.

The company hopes to see many of its projects come to fruition in 2018, but shares could still experience volatility due to pressures from south of the border.

Air Canada

Air Canada (TSX:AC)(TSX:AC.B) stock has climbed 75.8% in 2017 and 85% year over year. In its third-quarter results, Air Canada posted record operating income of $1 billion and operating revenues of $4.88 billion. Passenger traffic was up 8.8%, and yield jumped 0.4%.

Air Canada has also moved to expand its Rouge airline. The company made amendments to a deal with its pilots' association which put a 50-plane limit on its Rouge fleet. Low-cost carriers have begun to make significant inroads in the regional airline market. Air Canada has committed to expand the Rouge airline by expanding one narrow-bodied plan for each one it adds to the mainline fleet.

The stock has declined 12.4% month over month, which could present an opportunity for investors looking to buy, even after a remarkable 2017.

WestJet Airlines Ltd.

WestJet Airlines Ltd. (TSX:WJA) stock has increased 14% in 2017 and 26% year over year. WestJet is the second-largest airliner in Canada, behind Air Canada. The company released its third-quarter results on November 1. It reported record net earnings of $138.4 million, or $1.18 per fully diluted share, and flew an all-time record of 6.5 million passengers in the quarter.

WestJet has also been making inroads with its ultra-low-cost Swoop airline. The company plans to unveil further details in the early months of 2018. The stock also offers a solid dividend of $0.14 per share with a 2.1% dividend yield.

Demand and passenger traffic should continue to push airline stocks higher in 2018, though competition from emerging low-cost carriers could put pressure on the larger airliners.

My top pick continues to be WestJet based on its recent performance and attractive dividend offering.

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