



## Air Canada vs. WestJet Airlines Ltd.: Which Airline Flies Higher in 2018?

### Description

Airlines are incredibly cyclical stocks that get destroyed in the event of a recession, so as this bull market continues to age, why would an investor consider an airline at these levels?

It's hardly a mystery that airlines are horrible long-term investments; they lose a majority of their value during market crashes and they typically take an eternity to rebound. With many airline bankruptcies and every major correction, many airlines are feeling the pressure as they head closer to the brink.

Airlines are definitely not for the faint of heart or buy-and-hold forever investors. Get too attached to an airline stock for the long-term and you could lose your shirt. But if you're a medium-term trader looking to ride a cyclical upswing for some gains, then it definitely still makes sense to be a buyer of airlines, especially with the rise of ultra-low-cost-carriers like (ULCC) – airlines that hold the potential to protect the industry in the event of another recession.

As a long term buy-and-hold investor, Warren Buffett has never been a huge fan of the airlines – until he recently started loading up on various U.S.-traded airlines over a year ago. He's made a killing thus far, but I don't think he's in it for the long-term. He'll likely do a ton of selling once the opportunity is over, but for now, he and other investors seeking capital gains should still consider the airlines, as the sector likely hasn't even begun to hit peak altitude yet.

**Air Canada** ([TSX:AC](#))(TSX:AC.B) and **WestJet Airlines Ltd.** (TSX:WJA) are the two commercial airline stocks that airline investors need to decide between. [Air Canada has been the clear winner](#) over the past year, up ~74% versus WestJet's lagging but still impressive ~22% return.

Although Air Canada seems like the better bet for momentum investors, WestJet could make up for lost time next year as its ULCC called *Swoop* launches. WestJet is going after the low-end of the market aggressively while still maintaining its high-end business. As ULCC takes off, Air Canada will be lagging behind as it sticks to the high-end for the near-term.

"Our view is that the network that Swoop builds will be incremental to the WestJet network, rather than cannibalizing it," said Ed Sims, executive vice president of WestJet.

## Valuation

Shares of Air Canada currently trade at a 3.6 price-to-earnings multiple, a 2.2 price-to-book multiple, a 0.4 price-to-sales multiple, and a 2.5 price-to-cash flow multiple. WestJet stock trades at a 11.1 price-to-earnings multiple, a 1.4 price-to-book multiple, a 0.7 price-to-sales multiple, and a 3.6 price-to-cash flow multiple.

## Bottom line

Both stocks are really cheap and could do very well over the next year, but if I had to choose one stock, it'd be WestJet because I think Swoop will be a huge success with the value-conscious market. With its low debt levels, I believe WestJet can scale up its low-cost fleet faster than any smaller ULCC competitor out there.

Although Air Canada has been the hands-down winner thus far, the race is far from over – and WestJet certainly has the potential to fly higher in 2018.

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