



Why WestJet Airlines Ltd. Is My Preferred Airline Stock Going Forward

Description

WestJet Airlines Ltd. (TSX:WJA) has been a huge disappointment as an airline over the past year, despite beating the **S&P/TSX Composite Index** with a 14% return. As we head into the new year, I believe WestJet could [catch up to its higher-flying peer](#), **Air Canada** ([TSX:AC](#))(TSX:AC.B), which soared into the clouds last year with a ~89% return.

WestJet announces partnership with Delta

During WestJet's Investor Day held earlier last month, the management team shed some more light on its ultra-low-cost carrier (ULCC) Swoop Airlines, which will be taking the skies this summer. WestJet also announced its transborder partnership with **Delta Airlines Inc.** ([NYSE:DAL](#)), which will allow for coordinated schedules for flights to new destinations and expanded code sharing, allowing WestJet to book seats on a Delta flight and vice-versa.

"We believe this guidance should be seen positively on the margins as it confirms that WestJet's multiple expansion programs are not going to come at the expense of near-term profitability and balance sheet," said Doug Taylor, analyst at **Canaccord Genuity**.

The new partnership is a very positive development for WestJet; it will allow for higher operating margins without large upfront costs. WestJet's management team estimates that operating margins will be 10-12% over through 2020. The recent partnership should also help the company reverse its down-trending ROIC, which has dropped into the single digits over the last few years. Management desires to bring its ROIC back up to the ~16% levels, and with its recent efforts, I think they're on the right track.

The WestJet-Delta partnership is still subject to approval from regulators, but WestJet believes that it'll be approved at some point this year, allowing for operations to begin in the following year.

Could Swoop make WestJet the best Canadian airline in 2018?

Over the next few years, I certainly believe WestJet will make up for its prior underperformance, especially once the Delta partnership comes to fruition next year. In the meantime, it'll be all eyes on Swoop's summertime take-off, which I believe will be a huge success, as budget travelers take the

skies.

Bottom line

WestJet certainly beat Air Canada to the punch with a competitive ULCC, but that [doesn't mean WestJet will lack competition](#). Many smaller ULCCs are slated to hit the skies this year, but I think Swoop will hold its ground, especially since WestJet will be best equipped to scale up to meet the demand of fliers.

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