



WestJet Inc. vs. Air Canada: Who Will Win the Ultra-Low-Cost-Carrier Battle?

Description

With the battle between Canada's largest airlines picking up, investors deciding whether to buy shares of **Air Canada** ([TSX:AC](#))(TSX:AC.B) or **WestJet Airlines Ltd.** (TSX:WJA) have a lot to consider. Canadian airlines continue to be priced at relatively low valuation multiples compared with peers in the U.S., and thus represent very attractive value plays in the airline sector, which appears to be taking off.

Before jumping on board either airline, investors ought to consider the potential impact that WestJet's new ultra-low-cost carrier (ULCC) Swoop Airlines is likely to have for investors long term.

WestJet has received a significant amount of press of late by offering rock-bottom fares for domestic flights within Canada via Swoop airlines, a much-needed service for Canadians looking to travel high-volume routes between various Canadian cities. The company's model is to provide very bare-bones services for volume travelers looking for deals, making money by charging fees for baggage, WiFi internet, and other services, which will provide the lion's share of revenue as opposed to fares.

Swoop is intended to operate as a standalone ULCC, with its own reservation system and check-in system, operating its own routes with the potential to support existing WestJet routes on high-volume routes. I expect that at least in the near term, WestJet will benefit substantially from this play, as it provides a significant amount of organic growth at a time when investors expect top- and bottom-line results from airlines — something that has become harder to do as airlines approach peak capacity levels and efficiency levels, which may be difficult to improve without such investments.

Another factor that investors considering WestJet should consider is the company's [recently announced partnership](#) with **Delta Air Lines, Inc.** ([NYSE:DAL](#)), which was covered by fellow Fool contributor Joey Frenette. This partnership should theoretically provide WestJet with increased scale with lower upfront costs — a deal which has been viewed as a positive by analysts who have commented on the potential margin opportunity WestJet has created for itself.

Air Canada has stated that it intends to compete in this space, citing its intention to broaden its low-cost Rouge network to regional routes and also launch its own ULCC as a competitive measure to stem any market share loss it would otherwise see from WestJet or **Canada Jetlines Inc.**, two

companies which have seemingly beaten Air Canada to the punch in this niche.

Given Air Canada's strong cash position and ability to invest in this sector, I anticipate strong tailwinds for both companies in the near to medium term. As long-term plays, I have focused on Air Canada as offering investors the [best long-term value](#); however, both Air Canada and WestJet appear to be poised for solid growth in 2018, making either an excellent investment opportunity for Canadian investors.

Stay Foolish, my friends.

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