



2 Reasons 2018 Is a Big Year for WestJet Airlines Ltd. and Air Canada

Description

The two largest airlines in Canada, **Air Canada** ([TSX:AC](#))(TSX:AC.B) and **WestJet Airlines Ltd.** (TSX:WJA), are [gearing up for a big year](#) after releasing 2017 fourth-quarter and full-year results in February. After a terrific 2017, both stocks have sputtered to begin 2018. Air Canada is up 0.43% for the year, and shares of WestJet are down 1.9%. [The Canadian dollar](#) has retreated in 2018 relative to a strengthening U.S. dollar, but Canadian economic growth is projected to be strong, so airlines should continue to see high demand.

Both airlines reported record passenger traffic in the fourth quarter. WestJet saw segment guests rise 10% to 24.1 million in 2017, and Air Canada carried a record 48 million customers. Air Canada reported record operating revenues of \$16.25 billion, and WestJet saw revenue jump 9.2% to \$4.5 billion.

But what about 2018? Let's look at two ways air travel may change and make things interesting for both of these companies this year.

Air travel is evolving

The news was good for air travel in 2017. This was not just due to record passenger traffic and revenues, but also because it was the safest year on record. The Aviation Safety Network reported no commercial passenger jet deaths in 2017. Compare this to 2005, when there were over 1,000 commercial passenger jet deaths around the world.

Airlines are working on big steps in modernization going forward. Ed Bastian, CEO of **Delta Air Lines, Inc.**, recently said that his airline and others are working on instituting mobile check-in. High-speed internet is also expected to dramatically improve the in-flight experience for airlines like Lufthansa and Cathay. Airlines have also boasted that consumers will be able to further "customize" their in-flight experience.

Rising fuel costs could also result due to higher oil and gas prices. The oil crash in 2014 has produced a very friendly environment for airline operating costs. Passenger traffic is expected to increase in 2018 worldwide, but rising fuel costs could eat into revenues.

Low-cost competition is heating up

In February, Air Canada announced that it would be adding more planes to its regional carrier Rouge to service demand for domestic air travel. Air Canada is also concerned with the competition from new regional airlines that are offering low-cost alternatives.

WestJet is set to launch its “ultra-low-cost” Swoop airline in June of this year. The airline will make its home at the Hamilton, Ontario airport and will reportedly host 24 flights per week from the local airport. The flights will travel to Abbotsford, B.C., Halifax, Edmonton, and Winnipeg. Passenger numbers at the Hamilton airport nearly doubled in 2017. Traffic jumped 80% to 599,146 people in 2017 compared to 333,368 in 2016.

Should you add both to your portfolio?

Air Canada stock has surged 97% year over year as of close on February 23. A lower Canadian dollar, higher fuel prices, and general unease in stock markets put some question into the stock's growth potential this year. WestJet Airlines is up 14% from the prior year, but it offers a solid dividend of \$0.14 per share, representing a 2.1% dividend yield. Air Canada remains the premier airline in Canada today, but I still like WestJet stock more right now.

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