



What Is the Best Airline for Your Portfolio?

Description

Over the past few years, airlines have matured into viable investment options. Shockingly, investors still overlook airlines owing to their less-than-profitable past.

In some cases, airlines have realized double-digit gains that have far exceeded anything else on the market, and both **Air Canada** ([TSX:AC](#))(TSX:AC.B) and **WestJet Airlines Ltd.** (TSX:WJA) fall into this category, continuing to be great investment options to this day.

But which of these two should you invest in?

Let's look at both.

The case for Air Canada

Air Canada is the largest airline in the country and the eighth-largest airline in the world by fleet size, which includes over 400 aircraft that serve over 180 destinations on six continents, including routes operated by its subsidiary airlines that provide a feeder-type service to the airline.

In terms of the operating fleet, Air Canada is currently in the process of revamping its fleet, replacing older Boeing 767 aircraft with the newer 787 Dreamliner on long-haul routes.

This is a crucial factor to note, as two of the major expenses for airlines is the cost of fuel and the cost of acquiring (and maintaining) aircraft. The 787 is more fuel efficient than the older jets it's replacing, and the 787 has a longer range, creating new route possibilities.

In terms of results, Air Canada posted results for the fourth fiscal quarter of 2017 last month, and the results were record breaking. Passenger revenues came in at \$3.381 billion, representing an 11.4% increase of \$346 million over the same quarter last year.

Operating expenses for the quarter came in at \$3.687 billion, representing an increase of 8% over the same period last year, as higher fuel prices and added capacity weighed in.

EBITDAR for the quarter came in at \$521 million for the quarter, handily beating the \$455 million reported in the same quarter last year. GAAP operating income for the quarter was \$133 million, which shattered the \$18 million earned in the same quarter last year.

Looking ahead to 2018, Air Canada expects to generate positive free cash flow in the range of \$250-500 million.

Air Canada currently trades at just over \$26 with a P/E of just 3.57.

The case for WestJet

WestJet is Canada's second-largest airline, with a fleet of over 150 aircraft serving over 100 destinations.

Over the course of the past two years, WestJet has transitioned from being a national low-cost airline with limited cross-border flights to a full-fledged international carrier that now competes with Air Canada on several long-haul international routes.

WestJet hasn't been coy about further expansion of the airline to new locations in Europe and Asia, with now-former CEO Gregg Saretsky noting that the goal of the company was to become a full-service global carrier.

Part of reaching that goal relies on a network of international routes as well as a domestic feeder network. To that end, WestJet is set to begin operations of an ultra-low-cost carrier (ULCC) called Swoop later this year. ULCCs offer an inexpensive way to travel; every amenity, from luggage to seat selection, comes at an added price.

In terms of results, in the most recent quarter, WestJet earned \$48.5 million, or \$0.42 per diluted share, signifying the 51st consecutive quarter of profitability for the airline. Total revenue in the quarter hit \$1,117.4 million, an improvement of 9.8% over the same quarter last year.

Investors contemplating WestJet should also note that the company offers a quarterly dividend that pays a respectable 2.45% yield.

WestJet currently trades at just below \$23 with a P/E of 9.46.

Which is the better investment?

Both airlines offer a compelling case for investment, and the better investment comes down to your preferences around growth vs. dividends.

If dividends are more to your liking, WestJet may be your airline investment of choice. If growth is the most important, Air Canada's nearly 800% growth over the past five years is hard to deny.

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Author

dafxentiou

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