



Is Now the Time to Swoop in and Buy WestJet Airlines Ltd. Stock?

Description

The rise, or the impending rise, of the ultra-low-cost carrier (ULCC) in Canada has become quite the talking point for investors considering the Canadian airline sector. With **WestJet Airlines Ltd.** (TSX:WJA) announcing the importance of getting its own ULCC off the ground later this year (Swoop), investors expect that WestJet's competitive position will be enhanced relative to its larger rival **Air Canada** ([TSX:AC](#))(TSX:AC.B)

Here's why I don't buy that logic.

Airline profitability linked to capacity

One of the key issues with respect to ultra-low-cost carriers is linked to capacity. Various capacity metrics such as revenue per available seat mile and others are often looked to by analysts and investors as an indication of just how well an airline is operating. With the addition of a ULCC, WestJet can expect that its stock price is likely to be hit due to much lower capacity-related performance relative to its current state as user adoption at Swoop takes flight.

Additionally, given the oligopolistic nature of the Canadian airline sector, it behooves me as to why WestJet is taking a low-cost strategy at this point. While other small regional players such as **Canada Jetlines Ltd.** may indeed take some market share away from routes that may exemplify "low-hanging fruit," WestJet's deviation from its long-term strategy to be everything to everyone may not work, particularly in this point given various other fires the company's management team is currently putting out.

The impact of adding capacity and/or potentially impacting other routes via cannibalization is something that has concerned some investors and analysts for some time. While Air Canada has done a relatively good job of using partnerships to run its ULCC Rouge for quite some time, WestJet's need to manage how it brings on new routes via Swoop has led to another related issue — an ongoing union strike.

Ongoing strike negotiations made more difficult

As any airline investor knows, pilot strikes can be perhaps the most devastating event for any company. Without pilots, planes don't fly, and in the face of an ongoing unionization among WestJet pilots, adding an ultra-low-cost carrier to the mix certainly doesn't bode well given that many of the Swoop planes are expected to be taken from existing routes, thus impacting pilots.

While WestJet's management team continues to contend that its Swoop division will officially launch June 20, questions remain as to the status of the pilots the company will be bringing on and whether the current negotiations will be impacted by this move.

Bottom line

At this point, I would reiterate my inclination to stick with Air Canada from a long-term investor standpoint, given the shifting competitive landscape and long-term performance of Air Canada relative to WestJet over the past 10 years. While the ULCC story may remain a "sexy" one for investors to envisage, I believe this move is ill timed and potentially destructive given the larger issues currently at play.

Stay Foolish, my friends.

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