



## Can WestJet Airlines Ltd. (TSX:WJA) Pull Out of Its Nosedive?

### Description

Airline stocks haven't been a good bet in 2018.

Nowhere is that truer than at WestJet Airlines Ltd. (TSX:WJA), which has seen its stock price drop by almost 25% year to date, three times the decline of **Air Canada** ([TSX:AC](#))(TSX:AC.B).

WestJet announced poor earnings May 9, prompting two analysts to downgrade its stock. **Canadian Imperial Bank of Commerce** analyst Kevin Chiang dropped it from neutral to underperform, while AltaCorp Capital Inc.'s Chris Murray dropped it from sector perform to underperform. More important, the company's airline pilots could walk off the job as early as May 19.

WestJet is riding a streak of 50 consecutive moneymaking quarters, but a strike would likely end that.

### Growth strategy has flaws

CIBC sees the wisdom in WestJet starting an ultra-low-cost carrier (ULCC) in Canada while also growing its international reach with the addition of 10 **Boeing Co.** 787-9 Dreamliners. However, one wonders if the company will be able to do all of this promptly while facing severe labour issues.

"Given how 2018 is shaping up for the airline, the WestJet story now requires near flawless execution, which we view as a high hurdle for any company," Chiang wrote in a note to clients. "We have concerns over WestJet's ability to quickly rein in costs or that it has fully accounted for all the necessary investments related to its growth plans."

Interestingly, new CEO Ed Sims suggested in the company's conference call with analysts that WestJet's growth strategy is going ahead, albeit at a slightly slower pace.

Fool contributor Chris Macdonald [believes](#) that WestJet's ULCC move is ill timed and won't benefit shareholders. He therefore recommends Air Canada as the better long-term play.

It's hard to argue with MacDonald's logic. Indeed, WestJet seems to be trying to thread the eye of a needle when it might not have any pilots to handle some of this growth.

### **The upside of Swoop**

Back in October, I [recommended](#) WestJet stock for the simple reason that if Air Canada was a strong buy, WestJet must have been *at least* a buy, especially since Swoop, its ULCC entry, would be swooping in on some of the discount action heating up in Canada in 2018.

Fool colleague Joey Frenette, whom I frequently either wholeheartedly agree or disagree with, [believes](#) that investors are significantly undervaluing the ability of WestJet to grab a big chunk of the ULCC market. I couldn't agree more.

"The ULCC has the potential to provide a meaningful boost to the top and bottom line over the near term, and over the long term, I suspect the ULCC arm will grow to contribute a larger portion of overall revenues, which will allow WestJet to become more recession-proof come the next downturn," Frenette wrote on May 2.

Think about it.

WestJet is based in Calgary. As the price of oil moves higher, Albertans' purse strings will continue to loosen, and they'll be buying plane tickets on both Swoop and the regular airline. As more Westerners use the discount airline and grow to like it, come the next downturn, any airplane travel will be on Swoop, not Rouge or any other low-priced alternative.

### **The bottom line on WestJet stock**

Except for a month in February 2016, WestJet stock hasn't traded below \$20 consistently since 2012. As Frenette suggests, its valuation by every metric is cheaper than its historical norm.

Air Canada might take a prettier picture at the moment, but over the long term, WestJet stock provides a lot more upside with a little bit more risk.

Should WestJet pilots go on strike May 19 or thereabouts, I'd be shocked if its stock price wasn't hit with a short-term correction on the news. I'd put some cash aside to see how this strike plays out. Once that's resolved, I'd be buying with both hands.

In my opinion, WestJet is the winner in the long run.

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