



## U.K. Fund Manager Sees Big Value in WestJet Airlines Ltd. (TSX:WJA)

### Description

The typical activist investor would be screaming and yelling at **WestJet Airlines Ltd.** (TSX:WJA) if they owned 16.7% of the company and it was badly underperforming **Air Canada** ([TSX:AC](#))(TSX:AC.B).

That's not the case for low-profile London-based hedge fund Silchester International, which has snuck under investors' radar to become the airline's largest shareholder, owning 16.7% of the company's stock.

So enamoured with WestJet is this little-known hedge fund, it bought another 250,000 shares of the airline in May, bringing its total holdings to 19 million.

It does want changes to WestJet's board, more dividends, a change to the airline's corporate strategy. Silchester sees significant value in WestJet stock.

There must be at least 100 CEOs over the past year who've been pestered by activist investors with significantly lower ownership stakes, so relatively new boss Ed Sims has got to be thanking his lucky stars he got the only hedge fund on the planet that doesn't like to stir things up for change.

There are a few reasons why Silchester might view WestJet as a huge value play. Here are three that really make sense to me.

### Bill C-49 passed May 23

What's Bill C-49 you might ask?

It makes amendments to the Canada Transportation Act. One of the big changes is, it raises the foreign ownership cap to 49% from 25%. That won't alter the concept of Canadian-owned because the rules still require Canadian-controlled companies to own a majority of the equity.

Silchester won't be to buy WestJet, despite the changes, but it will be able to benefit from its investment should deeper foreign interests, airline or otherwise, look to bump up to that 49% cap.

So, if you thought WestJet couldn't compete financially with Air Canada, think again, because Bill C-49 is a game changer for the company.

### **Swoop, there it is!**

Not only did WestJet agree to a settlement process with its pilots that includes a federal mediator and, if necessary, final and binding arbitration. That removes the threat of a strike and, more importantly, reassures the ticket-buying public that it was okay to fly with the airline.

As part of that agreement, WestJet will use WestJet pilots to fly for Swoop, the company's ultra-low-cost carrier (ULCC) which launches June 20 with an inaugural flight between Hamilton, Ontario, and Abbotsford, B.C.

Here's what I had to say about WestJet and Swoop last October: "I believe that Air Canada could be in for a big surprise once WestJet and the rest of ULCCs get up and running. It might have to work for its money," I [wrote](#) October 4, 2017. "I don't see how WestJet isn't a 'buy' when Air Canada is a 'strong buy.'"

Clearly, Silchester believes starting Swoop makes sense. In weeks ahead, we'll know more about how travelers are finding the new airline.

### **Ten Dreamliners to travel the world**

WestJet CEO Sims took the top job in March; he's been very busy ever since. One of his biggest objectives is to make the airline a bigger player in international routes both outbound and inbound.

To do that, WestJet's got more than 10 787 Dreamliners coming over the next few years with the first to arrive as early as Q1 2019. Able to fly up to 14,000 kilometres while being 20% more fuel efficient, WestJet will be able to go beyond Europe to far away destinations in Asia and elsewhere.

"We only have a population of 35 million here, but we have the opportunity to fly to populations of three billion," Sims told *CBC News* in April. "There is absolutely unlimited opportunity ... to tap in to vast markets in Asia, still huge markets in Europe, an enormous market in Latin America, with unlimited opportunity to boost tourism to this country."

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

I'll let Fool contributor Demetris Afxentiou's thoughts on WestJet do my talking.

"WestJet remains an intriguing investment option for those investors looking at airline stocks that hold growth and income potential," Afxentiou [wrote](#) May 14. "And while there is uncertainty over the ongoing pilot dispute [no longer], long-term prospects for the company remain as strong as ever."

Silchester International couldn't have said it any better.

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