



Which Airline Is the Better Investment for Your Portfolio?

Description

With the temperature steadily rising, and schools closed (or soon to be) for the summer, the high season for traveling is finally here — it's a peak booking period for airlines.

Both **Air Canada** ([TSX:AC](#))(TSX:AC.B) and **WestJet Airlines Ltd.** (TSX:WJA) greatly anticipate the earnings potential that comes from this season, and while Air Canada is often regarded as a [great investment option](#), can we say the same about WestJet?

Should you consider WestJet?

Though smaller than its competitor in nearly every way, WestJet still packs a punch and offers several intriguing aspects that Air Canada cannot.

While WestJet has only added trans-Atlantic flights to its network within the past two years, the company has exhibited an aggressive drive to continue expanding to new destinations both within Europe as well as potentially into Asia. Offering intercontinental service requires larger planes with increased ranges over WestJet's current fleet, and to meet that need, the airline has already made a firm order for 10 787-9 Dreamliner jets, the first two of which will be entering service next year.

To mark the 787 milestone and the [massive opportunity](#) it poses, WestJet revealed a new livery and passenger experience for its new Dreamliner jets earlier this year that, among other things, introduce a new business class cabin that will help the company finally compete with Air Canada on routes and service level offerings.

Turning to the domestic market, WestJet has also spun up its own ULCC (ultra-low-cost carrier) known as Swoop. ULCCs cater to the lower end of the market, justifying its lower cost by stripping out amenities that many other airlines offer for free, such as priority boarding, seat selection, free cabin and carry-on baggage allowances, and food.

ULCCs often serve as feeder airlines for the larger, more established airlines that can fly further to more markets and with more amenities. As WestJet continues to expand to new markets with larger planes, Swoop could, in time, provide that feeder-type of service.

Swoop is set to begin operations later this week, starting with the inaugural flight from Hamilton to Abbotsford. In total, Swoop will start with just five destinations, served by four aircraft, with additional cities likely to follow before the end of the year.

In terms of results, WestJet has underperformed this year, with the stock dropping over 25% year to date. While concerning, the imminent launch of Swoop may provide the company with the earnings boost it needs over the long term, assuming that the ULCC model works well in Canada.

Finally, WestJet provides investors with a quarterly dividend, which currently offers a 2.42% yield.

Don't forget about Air Canada

As much as I am tempted by WestJet's dividend and the prospects for Swoop, my preference would be to hold off on WestJet, at least for the moment, and consider an investment in Air Canada instead. I can say this for two reasons.

First, Air Canada is the more mature carrier. It's mature in the sense that it has deeper pockets, a larger fleet, and it already has an operational low-cost subsidiary Rouge. This allows the carrier to spin up new routes, use larger planes, and even offer extended seasonal services to new destinations in an easier fashion when compared with WestJet. An example of this are the announcements earlier this month of new service from Montreal to Lisbon as well as Montreal to Bucharest.

Finally, while I am firmly in the camp that believes Swoop is the right thing for the market and for WestJet, the growth will come over the long term, particularly once service expands to other cities. Right now, the Hamilton-Abbotsford route is cheaper than flying out of Pearson to Vancouver on either WestJet or Air Canada, but the cost benefits are outweighed by the inconvenience of getting to these alternate cities and the lack of amenities on the flight.

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Author

dafxentiou

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