Is it Time to Take a Flyer on Westjet Airlines Ltd. (TSX:WJA)?

Description

Sometimes stocks fall to the point where you just have to take a look at them. Their basic ratios and fundamentals seem so appealing that it makes sense to check them over. At this point, the contrarian in me just needs to dig deeper to see if they are worth purchasing or if they have become value traps. Sometimes stocks are cheap for a reason.

As much as I have stayed away from airlines (in no small part because well-known investors such as Warren Buffett have famously, until recently, steered clear), **WestJet Airlines Ltd.** (TSX:WJA) has suddenly become cheap enough to warrant a look. The stock trades at a multiple of 14 times earnings and below book value, making this Canadian airline very appealing at first glance as a turnaround investment.

Although, as the company's name implies, WestJet began as a local carrier, it has expanded its flight offerings and aircraft fleet significantly over its more than two decades of operation. It now boasts multiple flights to the United States and the Caribbean. It also is expanding its European offerings, including the recently added flight to Paris, France. With the addition of new flight paths and aircraft, WestJet's overall capacity increased by 4.3%.

Taking a slightly deeper look at its balance sheet reveals that it has a significant amount of cash on hand. Its cash is close to enough to cover all of its debt obligations, reinforcing the possibility that this stock may be a decent investment at these lower levels.

WestJet had mixed operational results over the past year, contributing to the downturn in the stock price. The company increased its revenues by almost 7% in Q1 2018 but suffered in other areas. Net earnings were down 20%, and operating earnings were down 29.5%. The company attributed much of the decrease to increasing fuel costs, salaries and benefits, and advertising initiatives

The stock pays a decent dividend — almost 3% at the current price. And while WestJet has not raised the dividend in years, it does appear committed to continue paying it. While the decrease in earnings is not a positive development for dividend maintenance, the company's payout ratio was relatively low to begin with, so it has some breathing room for continued dividend payments.

The stock definitely looks cheap, and there appears to be some growth on the horizon. However, the headwinds the company faces are not insignificant. It is worrisome that the factors for decreased earnings, increased wages, and rising fuel costs are quite probably recurring.

Additionally, WestJet is now expanding far beyond its previous core competency of being a more regional carrier to be an international one. While this could drive growth, it could also force it to compete with a multitude of international carriers, as opposed to specializing in its own niche market.

In the end, WestJet is cheap enough to take a risk on the investment if you believe in the growth that management says lies ahead. Opportunities come from uncertainty, as those are the times when people sell off stocks to the point the price becomes attractive.

Preferably, it would be prudent to wait another couple of quarters to see if the falling earnings is a more worrisome trend or a short-term blip. At least the company is seeing increased revenues and is still generating positive earnings and free cash flow.

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