



Are Any of Canada's Airline Stocks Worth Owning?

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) is the growth stock among Canadian airline stocks, while **Westjet Airlines** (TSX:WJA) is a potential value play.

Are either of these worth owning? Let's have a look.

The main reason to own Air Canada

I don't think there's any doubt Air Canada has been on a roll over the past month, up 16% over a one-month period ended August 28 with a lot of the gains coming as a result of its [\\$450 million](#) joint-bid for Aeroplan with **Canadian Imperial Bank of Commerce, Toronto-Dominion Bank, and Visa**.

As my Fool colleague Demetris Afxentiou recently noted, the Aeroplan acquisition by Air Canada and partners kills two birds with one stone. It reassures Aeroplan members with hundreds of thousands of points collected that there will be a home for those points come 2020 and beyond while putting Canada's largest airline in the catbird seat when it comes to dictating what its loyalty program looks like in the future.

I'm not sure, however, that the Aeroplan acquisition tips the scale in favour of owning its stock.

No, the reason to own Air Canada has everything to do with growth. The airline has lots of it. In the first six months of fiscal 2018, Air Canada's revenues grew 11.3% to \$8.4 billion with a 2.7% increase in passenger revenue per available seat mile (PRASM).

By comparison, **United Continental Holdings** increased revenue by 7.5% in the first six months of the year with a similar increase in PRASM.

Air Canada is dominating the airline industry in North America.

The main reason to own WestJet

In June, I'd [discussed](#) how a U.K. fund manager had accumulated almost 17% of WestJet's stock, yet

it wasn't seeking any changes to the company's corporate strategy.

It simply viewed WestJet as an excellent value play worth owning, despite all the uncertainty surrounding the airline. Things haven't gotten any better since then, announcing its first quarterly loss in 13 years.

However, most of the negatives surrounding WestJet were already baked in to its stock price, which has lost 28% year to date, most of it in the first half of the year.

Now trading at one times book value compared to 1.9 times book value for Air Canada, a resumption in profitability should help jumpstart its stock.

The main reason not to own Air Canada

Air Canada is expected to generate between \$350 and \$500 million in free cash flow in 2018. Although the company projects it will generate between \$2 and \$3 billion in cumulative free cash flow over the next three years, it's got to pick up the pace of cash flow generation if it wants to hit that target.

It currently has \$6.1 billion in adjusted net debt. It will take the company 12 years to pay down its debt at \$500 million annually, and that's assuming it uses all of its free cash flow for debt repayment.

With rising oil prices likely to reduce profits, I don't see it repaying even half its debt, which isn't a good thing if interest rates keep moving higher.

The main reason not to own WestJet

I think the biggest reason to avoid WestJet stock is the fact that it's playing a weak second fiddle to Air Canada at the moment. Cutting routes across the country might save money, but it doesn't project confidence with either travelers or investors.

I'm a fan of WestJet stock, but even I've become a little concerned about its strategy for growth, which seems to be all over the map. It's got to do a better job of telling a coherent growth story.

Unfortunately, it's spending most of its time reacting rather than proactively growing its business. Until that changes, it's going to be hard for WJA stock to move higher.

The verdict

Many believe Warren Buffett will buy **Southwest Airlines**, which is good news for airline stocks.

Although I have concerns about both companies' stocks, I think the North American economy is strong enough for consumers to keep travelling in record numbers, which means the downside is relatively benign, even for a struggling WestJet.

So, if you're a growth investor, I'd still consider Air Canada, and if you can cope with a little uncertainty, WestJet is a good value play for the long haul.

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