3 Reasons to Invest in WestJet Airlines (TSX:WJA)

Description

Airlines make for some of the most peculiar investments on the market. On the one hand, the past decade has provided unprecedented growth to the industry, with many airlines posting better than double-digit growth, which was, in turn, invested into growth initiatives such as upgraded fleets and new livery.

On the other hand, some airlines like **WestJet Airlines** (TSX:WJA) have witnessed a pullback over the past year that has eroded much of that growth. Despite that pullback, WestJet remains an intriguing investment option worthy of consideration. Here are several reasons investors should consider over the long term.

WestJet has finally outgrown its former stereotype

WestJet started out by branding itself as a low-cost carrier for the masses. This was a two-fold strategy that attracted a significant amount of attention from budget-seeking travelers, while also setting the company up as a true Canadian alternative to the hold over the market advantage that **Air Canada** held thanks to its much larger (and more expensive) route network.

As WestJet's market share expanded, the company added more routes and began to account for an increasing amount of air traffic in Canada, while still sticking to its low-cost mantra. This continued for well over a decade with the airline expanding to both cross-border routes as well as into the Caribbean, but perhaps the most significant announcement came a few years ago when WestJet announced it would be offering cross-Atlantic full-service to routes in Europe.

This was a massive shift for WestJet and one that is still unfolding to this day. International routes, particularly trans-Atlantic ones open WestJet up to higher fares, additional freight opportunities and, perhaps most importantly, connecting passengers.

If that weren't compelling enough, WestJet's fleet of new 787 Dreamliner jets that are being introduced over the course of the next year will offer a new, higher-service level, more seats, and a greater range in a more fuel-efficient package.

Swoop brings forth new opportunities

As WestJet steps up into the world of lucrative trans-Atlantic travel, an opportunity has emerged at the other end of the market. Swoop is the name of WestJet's ULCC (ultra-low-cost carrier) which began operations earlier this year. ULCCs offer service to what are typically second-tier routes that carry lower costs than their peers for a fraction of the price. An example of such route would be Hamilton to Fort Lauderdale, which offers significant savings over the similar Toronto to Miami route would.

Swoop currently serves five cities in both the U.S. and Canada and an additional four cities across Mexico and Jamaica.

The opportunity that Swoop holds is two-fold. First, the company can cater to less-served, but still popular cities, such as Swoop's hub in Hamilton outside Toronto, or Abbotsford serving the Vancouver area. The second point is how Swoop can become what is known as a feeder airline. Feeders provide passengers to full-service airlines through connections and interline agreements.

To put it another way, Swoop will cater to the lower end of the market, serving some of the void left by WestJet as it begins to focus more on international routes.

Earn a respectable dividend while waiting for growth

Airlines aren't exactly known as some of the best income-earning investments. In fact, many of the largest airlines don't offer dividends, or they offer one that is more akin to a rounding error on a balance sheet. WestJet offers a quarterly payout that translates into a 3.07% yield at current prices.

If that dividend seems a little high, that's because WestJet's stock hasn't had the best of years. After factoring in a series of labour disputes, growing pains on its new international routes, and the volatile price of fuel, WestJet's stock has dropped 18% year to date.

While the stock may not be the safest investment to consider at the moment, WestJet holds significant opportunity for those investors looking for growth and income-producing capabilities with an appetite for risk.

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