



3 Reasons Why Air Canada (TSX:AC) and WestJet Airlines (TSX:WJA) Are Losing Altitude

Description

Airline stocks in Canada haven't offered anything attractive this year for investors to take serious interest. Both **Air Canada** ([TSX:AC](#))(TSX:AC.B) and **WestJet Airlines** (TSX:WJA) are facing tough times, and heavier turbulence is up ahead in 2019 with the prospect of a recession precipitating.

The emergence of budget airlines led by **Jetlines** is eating up on the profits of [the nation's dominant airline company](#) and [the once top-of-mind low-cost airline](#). But more than the threat of smaller competitors with limited fleet and fewer flight routes, the two main carriers are struggling with bigger issues.

A snapshot of 2018 performance

There weren't any significant instances in 2018 that showed the stocks flying at very high altitude. Air Canada started the year at \$26.19 and is at \$25.28 as of this writing. The lowest closing this year was \$22.59 sometime in early February. The stock peaked at \$29.00 end of November, but has dropped to its present level since then.

For WestJet Airlines, the situation is more depressing. The stock was at \$26.39 at the beginning of the year, and you might say the company lost one wing because the price now sits precariously at \$17.62.

3 reasons why the stocks are losing altitude

The airline industry in Canada could be described as very volatile. Air Canada and WestJet are not insulated from the factors that are affecting profitability. It appears too that the problems will drag on to the next year.

Fuel costs

While fluctuating gas prices do not necessarily cripple airline companies, it is important to look into the weight of aircraft fuel costs as against total expenditures. For Air Canada, fuel costs comprise 26.7% of total operating expenses. In the case of WestJet, it constitutes 29.0%.

Hence, should gas prices rise up in the future, the cost structures of the two companies will increase too; it will redound to which airline can operate a fleet more efficiently.

Salaries and benefits

You can apply the same analogy with fuel costs to salaries and benefits. As a percentage of total operating expenses, salaries and benefits comprise 16.2% for Air Canada and 21.1% for WestJet. The latter is at a disadvantage because of the recently formed union. The risk profile also increased as a result.

Airline discounts

The mushrooming of budget airlines led to generous discounts and budget fares. Airline passengers are benefiting but the more airlines fly and saturate the regional routes, the cutthroat competition will hurt Air Canada and WestJet all the more.

Fasten your seatbelts

As an added trivia and for purposes of comparison, the price of Air Canada some five Novembers ago was \$5.88, while WestJet was at \$27.43 during the same period. Air Canada flew higher then, but WestJet experienced more air pockets that cause the company to lose altitude.

Thus, investors of the two main carriers should find the right timing to disembark. For the prospective ones, look elsewhere until the air has cleared.

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