



## Should You Still Purchase WestJet Airlines (TSX:WJA)?

### Description

Airline stocks have had an incredible past few years, which is an impressive fact considering that airlines haven't always been viewed as great investment options. In fact, Warren Buffett once hinted that airlines were some of the worst investments to make, making note of the delicate nature of the industry and the huge costs involved. His comments clearly didn't span the test of time either; the Oracle of Omaha did eventually invest billions into several airlines and has profited nicely off that investment.

**WestJet Airlines** (TSX:WJA) has seen some of that growth in recent years, but the airline has recently lost some of its former appeal among investors, particularly as the company ended a span of over one decade of posting a profit in each quarter.

Let's try to determine whether WestJet is still a worthy investment to your portfolio.

### Here's why you should invest

WestJet's foray into offering trans-Atlantic service, along with its new low-cost carrier Swoop are two appealing and often underrated points that every prospective investor should take into consideration. By offering service to Europe, WestJet has entered what is a lucrative market that was dominated by its primary competitor [Air Canada](#).

Despite some early operational hiccups in offering that service, WestJet's international expansion has been a success. The airline's new Dreamliner fleet, three of which are already in service, has added more capacity, greater fuel efficiency, and offers a better experience for customers. The airline is even turning towards offering premium seating as another revenue gainer.

On the other end of the spectrum lies Swoop, which is also undergoing its own string of expansion, despite only coming into service last summer. Earlier this month, the airline announced new routes, including London, Kelowna, and Oakland, California to its network, all adhering to the preference of selecting secondary market airports with traffic potential, but also lower airport costs.

Both of these translate into long-term potential, which should excite investors. Company CEO Ed Sims noted last month that WestJet's revenue was "nowhere near" the company's potential, and WestJet has predicted earnings growth of 40% on a per-share basis over the next three-year period. Furthermore, those less-than-stellar results last year could be traced in part back to the startup costs associated with both Swoop and the new Dreamliner aircraft.

## Here's why you should hold (or sell?)

The airline segment is not without risks. By way of example, let's take into consideration the costs associated with operating a single route. There are highly trained ground crews and mechanical teams in both the departing and arriving airports as well as flight crew and pilots. The aircraft itself can cost upwards of \$100 million, is subject to landing fees while on the tarmac, and requires jet fuel, which continues to rise and was also attributed as one of the reasons for WestJet's decline in profit last year.

I'm not even factoring in whether the route itself is one that has significant traffic potential, or if there are freight opportunities, or finally how the weather along the planned route is.

Airlines also operate in cycles that, for the most part, follow the general trend of the economy. When the economy begins to lose steam, discretionary and even business travel are among the first things that are cut from budgets. In the early 2000s, we saw several prominent airline collapse and declare bankruptcy as the aftermath of 9/11 as well as a weak economy and soaring fuel costs completely decimated the travel market.

That's not to say that the market is heading down that same path, but more that prospective investors should be cautious.

## Should you buy?

While I do like the overall direction that WestJet is heading when it comes to expanding to new international destinations while expanding Swoop's network, that growth comes with risk, particularly for those investors with shorter timelines.

That being said, if your intentions are to buy and hold for the long term, a small position in WestJet could be warranted. Investors that need more convincing can also take solace in WestJet's appetizing dividend, which offers a solid 2.87% yield, making it an attractive option for [income seekers](#) as well.

### CATEGORY

1. Investing

### POST TAG

1. Editor's Choice

### PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

### Category

1. Investing

### Tags

1. Editor's Choice

### Date

2025/07/26

### Date Created

2019/01/29

### Author

dafxentiou

default watermark

default watermark