



Should You Buy WestJet Airline's (TSX:WJA) Stock After Its Latest Earnings Report?

Description

WestJet Airline (TSX:WJA) recently released its fourth-quarter and full year financial results for 2018. At first glance, the company's performance seems disappointing. Though WestJet's revenue increased by 5% compared to the previous fiscal year, net earnings decreased by 68%, while diluted earnings per share decreased by 66.4%.

A drop in the company's earnings was expected by analysts across the board. In fact, WestJet beat analyst estimates by a wide margin (for the fourth quarter), which contributed to the 3% surge in late morning trading after the company's results were announced. For investors with WestJet on their watchlist, here are three key developments to focus on as the current fiscal year unfolds.

WestJest slows down on capacity growth

In an attempt to increase revenues, WJA had originally set a goal to increase passenger carrying capacity by anywhere between 6.5% and 8.5% this year. On the one hand, this makes sense. The company's top line increases if it can carry more customers, all other things remaining equal.

These weren't idle promises either. The Calgary-based airline has been increasing passenger carrying capacity at a decent rate over the past few years, a growth that has been driven by an increase in demand. However, management recently decided to slow down on capacity increases (promising a lower forecasting a lower percentage rise) and will instead focus on other avenues for growth.

Pay for perks

WestJet is now looking to increase its shares of higher paying customers by making customers pay for such perks as priority boarding and added legroom. The company's most important venture along those lines, though, comes via its Dreamliner business class service.

The Dreamliner business class service is a luxury option designed to offer customers more space, more comfort, more privacy, and other perks. WJA also expects demand to rise this year which, in combination with a less intense economic environment, should lead to higher profits.

WestJet's pilot woes

One of the things that contributed to WestJet's negative performance last year was the [threat of a strike](#) by the company's pilots. The two parties involved had yet to come to an agreement despite contract talks that had started back in 2017. The drama surrounding WestJet's pilots led to the company's prices dropping and fewer customers booking their flights.

WestJet narrowly avoided a strike and worked diligently to prevent this from happening again. Something of an accord seems to have been reached in December when WestJet announced that an arbitrator had set terms between the company and its pilots.

Investor takeaway

WestJet saw a tumultuous 2018. The company's net income and earnings per share decrease significantly compared to the previous years. Much of this negative performance had to do with variables outside of WestJet's control, however. Economic uncertainty and the price of fuel — one of the most important expense for airline companies — both played a significant role in dragging the company's profits down. The talks of a pilot strike did not help either.

WestJet earnings were still encouraging, as it showed a growth in revenue primarily driven by a continued increase in demand. If WestJet can manage to control its internal drama and the economic environment loosens up, the company's profits will likely soar in 2019.

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