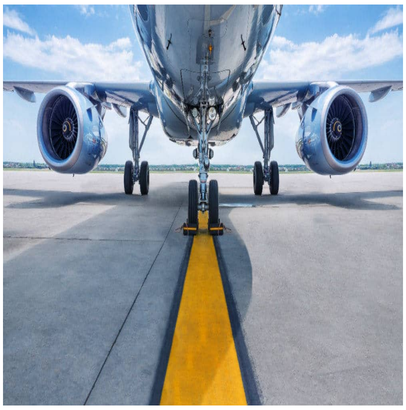

Will Boeing Co (NYSE:BA) Boost the Stock Price of WestJet Airlines Ltd. (TSX:WJA)?

Description

Last year, **WestJet Airlines** (TSX:WJA) hit $4.7 billion in sales by operating 177 aircraft in more than 100 locations across 23 countries. Based on its recent dealings with **Boeing** (NYSE:BA), those numbers could multiply quickly in the years ahead.

On February 20, WestJet announced the debut of its first Dreamliner aircraft after its first flight took off from Toronto's airport. To ensure adequate crew training and proper regulatory compliance, the aircraft will fly domestically for a few months before entering its first international flight from Toronto to London in April.

This event could change the future of the entire company.

WestJet is entering a new frontier

In 2019, WestJet is expected to add domestic capacity of around 1-3%. Internationally, however, the company anticipates adding 6.5-8.5% in new capacity. This is a trend that started around 2014, when the company first added international routes to Ireland, quickly followed by new routes to the U.K. and France. In 2019, Spain should be added to that growing list.

The ability to service these long-haul routes is a result of the company's collaboration with Boeing.

In January, WestJet took delivery of its first Boeing Dreamliner aircraft. In February, the second Dreamliner arrived. A third aircraft should arrive in March. In total, WestJet should take delivery of an additional seven Dreamliners this year.

With options to purchase 10 additional Dreamliners between 2020 and 2024, WestJet is clearly focusing on international expansion. In its latest investor presentation, the company specifically highlighted its "deliberate approach to international growth."

Get ready for free cash flow

While international opportunities have the potential to bump revenues beyond what Canadian routes alone can provide, management has also turned to cost savings to drive better profitability. Last year, the company realized $60 million in annual savings.

By 2020, it remains on track to generate $200 million in annual cost reductions. Those reductions should have a meaningful impact on free cash flow generation.

While the company has been able to return $435 million in dividends and $710 million in stock buybacks to shareholders since 2010, free cash flow has struggled. This has limited WestJet's ability to reinvest in promising opportunities. In fact, from 2013 to 2018 the company experienced negative cumulative free cash flow growth. That's simply not sustainable.

Fortunately, 2019 could be a harbinger of change.

From 2019 to 2022, management anticipates generating roughly $1 billion in free cash flow, more than 40% of the company's current market capitalization. If that future is realized, WestJet could theoretically pay off its entire short- and long-term debt load while still having $500 million left over to pay dividends, repurchase stock, and grow operations.

Here's what to do

Over the past 12 months, WestJet shares have fallen by around 20%. Much of this stems from the company's weak 2018 operating results, which saw its lowest earnings levels in at least seven years.

If its anticipated free cash flow generation comes to pass, however, this could be a great long-term buying opportunity. Within three years, WestJet could be a $40 stock.

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