



WestJet Airlines (TSX:WJA) Soars 60% in a Day: What Happened and What to Do Next

Description

WestJet Airlines (TSX:WJA) took off for the stratosphere on Monday on news that the firm will be acquired by **Onex**, a Toronto-based private equity firm that surged 4% for the day, in a deal worth \$5 billion. Shares of both firms were major outliers on a day where stocks in the green were few and far between, as more of Trump's trade war shivers were sent down the spines of global investors.

WestJet has been a major underperformer in the airline space over the past few years. The stock had lagged relative to the likes of its brother in **Air Canada**, which surged 5.5% on Monday, for quite some time. It felt like WestJet shareholders were stuck in an aircraft that had been driving around the runway, while Air Canada had already taken off to peak altitude,

In a prior piece where I [compared](#) to two airlines side by side, I'd noted that WestJet, like Air Canada and other airlines, was still "reaping the rewards" from the cyclical upswing in the airlines but had warned that WestJet's "excessive exposure to the struggling province of Alberta" wasn't doing the stock any favours. I also highlighted WestJet's downtrending ROIC numbers as a potential cause for concern but praised WestJet's progress in the ultra-low-cost-carrier (ULCC) space at the time.

Onex saw something it liked with WestJet, despite the company's prolonged period of underperformance. When you consider the underlying economics of the airline business has improved over the past few years, the WestJet deal begins to make more sense. The airlines aren't ticking timebombs for your portfolio like they used to be, as I explained in a [prior piece](#). They may actually be sources of hidden value for those with long enough time horizons.

Warren Buffett had backed up the truck on U.S.-based airlines in recent years, despite expressing his past distaste for the entire sector. The vastly improved investment thesis for the airlines is a likely reason why. While WestJet isn't close to being the same calibre as a U.S. airline that Buffett loaded up on, the company is facing solid long-term tailwinds, just like its bigger brothers.

"WestJet is in the middle of a significant transformation as they move to be a full-service airline with products from barebones fares to high-end, first-class offerings," said Helane Becker and Conor

Cunningham in a research note issued by Cowen.

Indeed, there's plenty of potential to unlock considerable value as WestJet expands its wings beyond the confines of Canada with more higher-priced tiers while doubling down on Swoop, its ULCC, which could provide a nice windfall in an economic slowdown.

Of course, WestJet will need to execute correctly, or it will never reach its full potential. With Onex now standing in its corner though, I think the deal may end up being an incredible bargain for the private equity firm that's swooped in to nab the low-cost carrier.

What should investors do now?

Naturally, you could buy Onex, but I think investors would be better served scooping up Air Canada as a cheap play on the Canadian airline scene. Despite surging to multi-year highs, I still think the firm's best days are ahead of it as the Canadian economy bounces back.

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