



October 12, 2018

RBC Flight Deck

Q3 Preview - Strong underlying demand should help pricing offset fuel

Overall traffic remains robust. Demand was strong in Q3, with WestJet reporting traffic +8.6% Y/Y, and the global peer group, on average, reporting an average 7.8% Y/Y increase. Strong traffic growth is key if airlines want to pass along rising fuel costs. Air Canada has already been very successful this year in passing on rising fuel costs, and we do not expect this to change this quarter.

RBC Fare Survey points to higher prices in Q3. Our proprietary Fare Survey tracks price changes on selected routes to gauge the direction and magnitude of fare prices in the month. Based on these data, overall fare growth was strong in Q3 as both Air Canada and WestJet showed double digit gains. AC fares are 11.7% higher than Q3 last year, the highest level since we started tracking the data in 2012. WestJet fares showed some volatility throughout the quarter, as the airline dealt with lower bookings following the strike talks. We did see WJA fares surge in the last few weeks of the quarter, which pushed fare prices up a healthy 11.1% Y/Y.

Updating estimates ahead of Q3. We made only slight changes to our estimates, and rolled our valuation forward to 2020. The key revision impacting our estimates was the rise in the forward fuel curve. Highlights below, with further details are on pages 4-6.

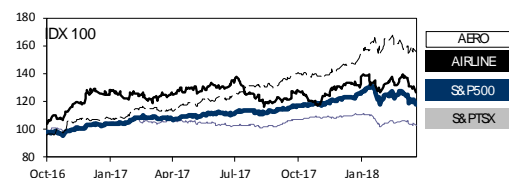
- **AC: Maintaining Outperform, Speculative Risk; increasing price target to \$33 (from \$32).** Our fare tracker is pointing to strong price gains on a Y/Y basis, and we have increased our yield estimates from 3.0% to 3.5%. We remain confident in Air Canada's ability to pass on higher fuel prices, and given the oil backdrop. Our higher yield assumption pushes our 3Q EBITDAR estimate higher to \$1,218MM (from \$1,189MM) and consensus at \$1,231MM; our price target goes to \$33 (from \$32).
- **WJA: Maintaining Sector Perform; increasing price target to \$19 (from \$18).** We have updated our estimates to account for higher fuel prices, and rolled forward our 2020 estimates. In addition, according to our fare tracker, WestJet has been consistently increasing fare prices, and so we have modestly increased our yield expectations for the quarter (from -5% to -4% Y/Y). Mostly due to the higher fuel prices, our 3Q EBITDAR estimate moved slightly lower to \$212MM (from \$219MM).
- **CHR: Maintaining Outperform and \$11.00 price target:** Given the stable nature of Chorus's CPA with Air Canada, we only slightly modified assumptions in the leasing/maintenance business. In the Q3 release, we will look for commentary on Chorus's leasing portfolio, and if they expect to close any new leasing deals in the upcoming months.

In this edition...

- **RBC Fare Tracker (p. 2):** Seeing positive fare growth from AC and WJA in Q3.
- **Company Tear Sheets (p. 4)**



INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTX	(4.8)	(5.5)	(3.1)	▼
S&P 500	(5.5)	2.0	6.8	▼
AMEX Airline	(10.6)	(18.2)	(15.7)	▼
AMEX Aerospace	(0.8)	6.1	11.5	▼



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	2.8	21.6	37.2	Δ
Jet Fuel	0.6	10.5	34.3	Δ
CAD/USD	0.3	3.7	4.5	Δ

AEROSPACE				
Bombardier	(17.8)	26.1	62.6	▼
Boeing	3.7	21.4	37.0	Δ
EADS	(8.8)	17.3	24.8	▼
Embraer	0.8	(19.2)	(13.7)	Δ
General Dynamics	(1.6)	(5.2)	(9.3)	▼
Textron	(7.0)	15.0	20.7	▼
United Technologies	(3.2)	1.4	9.9	▼

N.A. MAINLINE				
Air Canada	(11.7)	(6.8)	(13.6)	▼
AMR	(22.2)	(39.9)	(40.8)	▼
Delta	(11.7)	(8.1)	(3.0)	▼
United	(10.1)	18.9	18.9	▼

N.A. REGIONAL				
Alaska	(13.3)	(18.6)	(26.6)	▼
Allegiant	(7.0)	(23.9)	(14.7)	▼
Chorus Aviation	(13.5)	(29.2)	(21.4)	▼
JetBlue	(14.9)	(27.4)	(21.0)	▼
SkyWest	(19.1)	(5.6)	9.0	▼
Southwest	(9.4)	(12.9)	(2.6)	▼
WestJet	(7.4)	(31.5)	(34.0)	▼

INTL AIRLINES				
Lufthansa	(14.6)	(38.6)	(23.1)	▼
Air France/KLM	(4.1)	(41.1)	(39.9)	▼
BA/Iberia	(12.8)	(10.6)	(6.7)	▼
Cathay Pacific	60.0	18.0	(11.1)	Δ
Air China	0.3	(30.9)	(1.2)	Δ
China Eastern	(7.9)	(26.3)	7.2	▼
China Southern	(9.6)	(48.8)	(24.2)	▼
Singapore Airlines	(4.5)	(14.0)	(10.1)	▼
Qantas	(14.6)	5.6	(15.4)	▼

Source: Bloomberg

Canadian Airlines Q3/18 preview

Strong demand trends providing opportunity to offset higher fuel costs through fare pricing

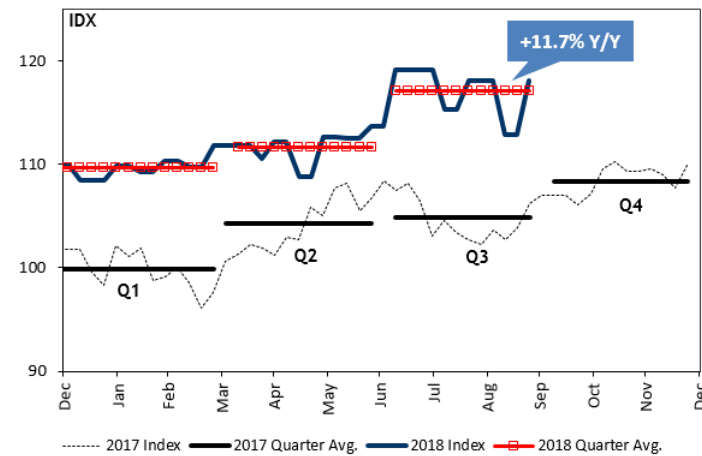
Overall, we expect the third quarter will be a solid one for the airlines. The demand backdrop remains healthy, passenger traffic numbers are reaching record numbers and fare prices by our measure are rising (see section below). Q3 is also usually one of the strongest for traffic, and all preliminary data suggests traffic growth continues to exceed expectations. WestJet’s traffic statistics rose an impressive 8.6% in Q3 Y/Y, and global peers reported an average 7.8% increase in traffic Y/Y in Q3. We acknowledge that fuel prices are higher on a Y/Y basis, but we feel this has more than been priced in to share valuations. Further, Air Canada has been very successful so far this year in passing on rising fuel costs, and we do not expect this to change this quarter. As such, it remains our favorite name in the airlines group.

Fare Prices shows demand remains strong

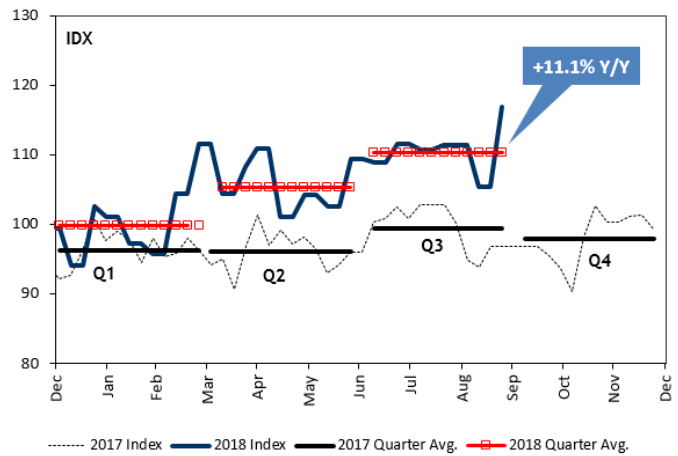
As tracked by the RBC Fare Survey, the Canadian airlines are showing strong, double digit Y/Y fare price growth in Q3. For Air Canada, Q3 was the sixth consecutive quarter of positive growth, with the RBC Fare Survey showing fares increasing +11.7% Y/Y. After adjusting down by 250bp for mix, it implies a yield increase of +9.2% Y/Y. WestJet fares showed some volatility throughout the quarter, as the airline dealt with lower bookings following the strike talks. We did see WJA fares surge in the last few weeks of the quarter, which pushed fare prices up a very healthy 11.1% Y/Y. After adjusting down by 50bp to account for mix, it implies a positive yield of 10.6% Y/Y.

Exhibit 1: Fares were volatile but higher double digits Y/Y in Q3

RBC Fare Tracker – Air Canada



RBC Fare Tracker – WestJet



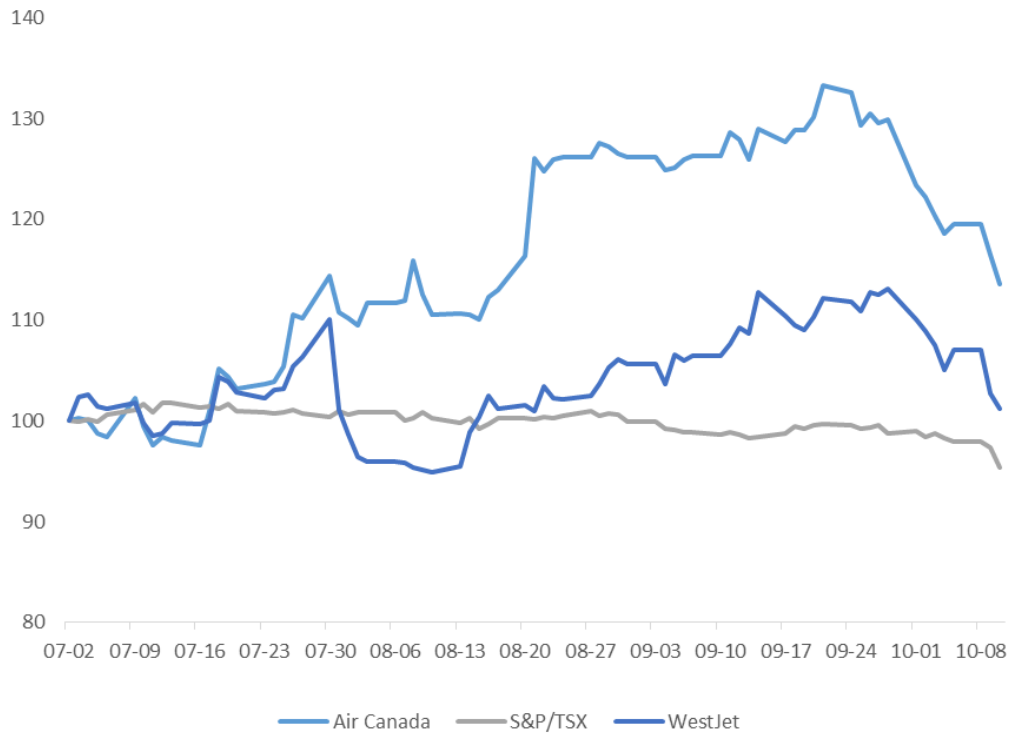
Source: Air Canada, WestJet, RBC Capital Markets estimates

Airlines outperformed the TSX in Q3

We note that the Canadian airline shares performed very well in Q3 – AC shares were up more than 30% compared to the flat performance of the TSX. WestJet struggled following the release of Q2 results, but gradually recouped the majority of losses. However, both airlines have sold off rather dramatically since the end of the quarter, due to no change in fundamentals or demand trends. We do not see this sell-off as justified, and would reiterate our Outperform thesis on Air Canada. We remain on the sidelines regarding WestJet, and when they report Q3 numbers, we will be looking for signs of an inflection point in costs and capacity.



Exhibit 2: The Airlines have sold off significantly in October



Source: Factset, RBC Capital Markets

Q3 Preview: Slight estimate changes

We made modest changes to our forward estimates, updated for the fuel curve, and rolled our estimates ahead to 2020. Given the results of the Fare Tracker, we have also modestly increased our yield estimate for Q3 for both AC and WJA. Our price targets for both Air Canada and WestJet have therefore moved up slightly, mainly as a result of the valuation basis year roll-forward. Details are in the company summaries that follow.



Air Canada (TSX: AC)

Outperform, Spec Risk; \$33 Target (from \$32)

SUMMARY

Market price:	\$24.13	52-Wk High:	\$29.11
Yield (12-mth):	0.0%	52-Wk Low:	\$20.33
Total est. return:	37%	Mkt Cap (MM):	\$6,684
Shares O/S (MM):	277.0	Net Debt (MM):	\$6,393
Float (MM):	\$6,684	EV (MM):	\$13,077

CONFERENCE CALL DETAILS

- Monday, October 31st at 8:30AM ET
- 1-800-478-9326

Q3/18 set-up. We are seeing preliminary data pointing to strong traffic growth this quarter. Our fare tracker is pointing to steady and strong price gains on a year-over-year basis, and so we have increased our yield estimates from 3.0% to 3.5%. We remain confident in Air Canada's ability to pass on higher fuel prices, and given the oil backdrop, we expect management to be very cognizant of CASM levels. Our higher yield assumption pushes our 3Q EBITDAR estimate higher to \$1,218MM (from \$1,189MM) and consensus at \$1,231MM; our price target goes to \$33 (from \$32).

Reiterate Outperform rating. AC continues to be a very attractive investment opportunity in our coverage universe, in our view. We reiterate that the company's debt reduction strategy coupled with significant FCF generation once the fleet renewal is complete should lead to increased shareholder returns through a buyback and eventual dividend. While the stock has somewhat recovered from the early 2018 selloff related to fuel concerns, we still see valuation levels as very attractive relative to peers. Maintain Outperform.

STOCK SET-UP

Q3/18 Performance

Absolute vs. S&P TSX	30%
	3,114bps

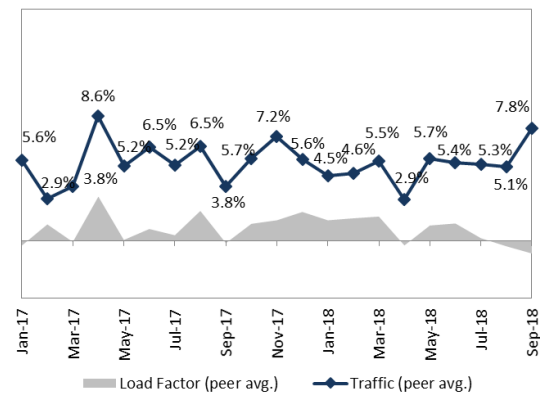
Short Interest (Days to Cover)

Current	1.0
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Analyst Sentiment

Outperform	88%
Sector Perform	13%
Underperform	0%

TRAFFIC DATA



	Q3/18E			2018E			2019E			2020E
	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var	NEW
Traffic: RPMs (% chg)	6.5%	6.5%	0bp	7.8%	8.1%	34bp	3.0%	3.0%	0bp	2.5%
Capacity: ASMs (% chg)	6.5%	6.5%	0bp	7.0%	7.0%	0bp	3.0%	3.0%	0bp	3.0%
Load Factor (%pts)	85.3%	85.3%	0bp	82.9%	83.1%	26bp	82.9%	83.1%	26bp	82.7%
Yield (% chg)	3.0%	3.5%	50bp	2.1%	2.3%	25bp	2.0%	3.0%	100bp	2.0%
RASM (% chg)	2.7%	3.2%	50bp	2.3%	2.9%	60bp	2.0%	3.0%	97bp	1.5%
Adj. CASM ex fuel+other (% chg)	2.0%	1.6%	-36bp	-0.5%	-0.4%	4bp	1.3%	1.1%	-18bp	1.1%
Avg Jet Fuel Price: (\$/Ltr)	\$0.73	\$0.80	9.8%	\$0.78	\$0.80	2.2%	\$0.76	\$0.82	8.8%	\$0.75
Revenue	5,258	5,282	0.4%	17,744	17,837	0.5%	18,591	18,847	1.4%	19,655
Expenses	4,069	4,064	-0.1%	14,964	15,057	0.6%	15,370	15,713	2.2%	16,088
EBITDAR	1,189	1,218	2.4%	2,780	2,780	0.0%	3,221	3,134	-2.7%	3,566
EPS ex-one time items (\$)	2.48	2.04		3.18	2.50		4.58	2.96		4.00
Consensus EBITDAR		1,231			2,793			3,227		3,227

Source: Company reports, RBC CM estimates

Source: Bloomberg, Factset, RBC Capital Markets estimates, Company reports

Priced as of market close October 11, 2018



Chorus Aviation (TSX : CHR)

Outperform; \$11 Target (unchg.)

SUMMARY

Ticker:	CHR-ca	Rating:	Outperform
Exchange:	TSX	Target price:	\$11.00
Market price:	\$6.83	52-Wk High:	\$9.86
Yield (12-mth):	7.0%	52-Wk Low:	\$6.77
Total est. return:	68%	Mkt Cap (MM)	\$947
Shares O/S (MM):	138.6	Net Debt (MM)	\$1,171
Float (MM):	\$947	EV (MM):	\$2,118

CONFERENCE CALL DETAILS

- Wednesday November 14th @ 11:00AM
- 1-888-231-8191

Q3/18 set-up: We have modestly increased our growth assumptions for the non-CPA businesses, including both leasing and maintenance. This led to a slightly higher Q3 EBITDAR of \$122MM (from \$114MM), in-line with consensus at \$122MM, and our target price is constant at \$11. We feel that the valuation level has recently been weighed down by lack of news on the leasing side, and so will be looking for commentary during the Q3 management call.

Progress on leasing subsidiary. Chorus's leasing portfolio has now grown to 23 aircraft by the end of Q2, and we expect it to continue to grow. For this quarter, we will be looking for management's commentary on the deployment of the remaining capital raised for CAC, and new commentary regarding potential lease deals.

Maintain Outperform. The stability of cash flows under the CPA presents an attractive yield, while Chorus's venture into aircraft leasing provides a platform for growth. Accordingly, we still believe the stock presents an attractive risk adjusted return profile.

STOCK SET-UP

Q3/18 Performance

Absolute vs. S&P TSX 10%
1,077bps

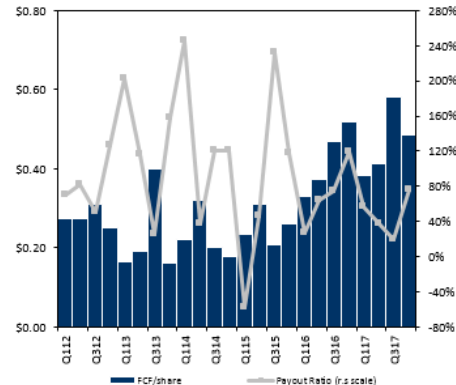
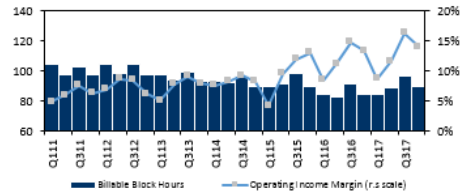
Short Interest (Days to Cover)

Current 2.6

Analyst Sentiment

Outperform 100%
Sector Perform -
Underperform 0%

OPERATING METRICS



	Q3/18E			2018E			2019E			2020E
	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var	NEW
Revenue breakdown										
Controllable Revenue	243	242	-0.3%	886	886	0.0%	976	1,172	20.1%	1,169
Leasing under CPA	24	24	0.0%	109	109	0.0%	97	97	0.0%	97
Margin compensation	28	28	0.0%	112	112	0.0%	112	112	0.0%	112
Incentives	4	3	-14.6%	14	14	0.0%	16	16	0.0%	16
Pass through revenue	73	69	-5.1%	266	261	-1.7%	270	268	-0.8%	268
Passenger revenue	372	371	-0.2%	1,387	1,434	3.4%	1,471	1,665	13.2%	1,662
Other revenue	25	26	5.8%	102	115	13.2%	96	119	24.5%	147
Total Revenues	397	398	0.2%	1,489	1,549	4.1%	1,567	1,785	13.9%	1,809
Total Expenses	337	330	-2.2%	1,315	1,313	-0.2%	1,329	1,519	14.2%	1,509
EBITDAR	114	122	7.3%	433	453	4.7%	430	481	11.8%	490
<i>Consensus EBITDAR</i>		121.8			436.5			484.1		509.8

Source: Bloomberg, RBC Capital Markets estimates, Company reports

Priced as of market close October 11, 2018



WestJet (TSX: WJA)

Sector Perform; \$19 Target (from \$18)

SUMMARY

Market price:	\$18.06	52-Wk High:	\$28.00
Yield (12-mth):	2.9%	52-Wk Low:	\$16.82
Total est. return:	8%	Mkt Cap (MM):	\$2,117
Shares O/S (MM):	117.2	Net Debt (MM):	\$981
Float (MM):	\$2,077	EV (MM):	\$3,098

STOCK SET-UP

Q3/18 Performance

Absolute vs. S&P TSX	13%
	1,438bps

Short Interest (Days to Cover)

Current	3.4
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Analyst Sentiment

Outperform	17%
Sector Perform	56%
Underperform	28%

CONFERENCE CALL DETAILS

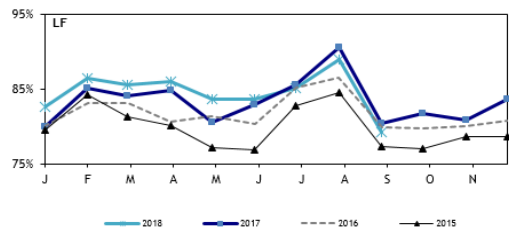
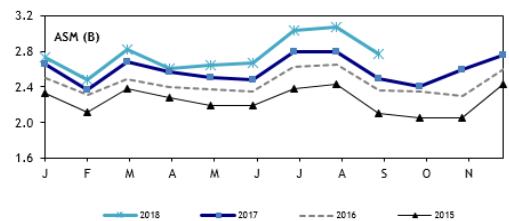
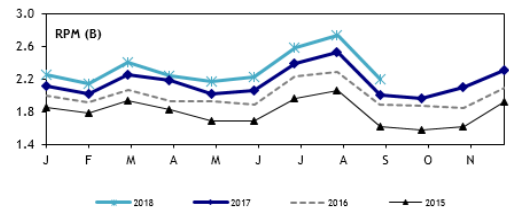
- Tuesday, October 30th @ 10:00AM
- 416-915-3239

Q3/18 set up. We have updated our estimates to account for higher fuel prices, and rolled forward our 2020 estimates. In addition, according to our fare tracker, WestJet has been consistently increasing fare prices, and so we have modestly increased our yield expectations for the quarter (from -5% to -4% Y/Y). Mostly due to the higher fuel prices, our 3Q EBITDAR estimate moved slightly lower to \$212MM (from \$219MM).

Focus of the call. We expect the upcoming quarterly call to focus on near-term areas of uncertainty, notably: 1) traffic and capacity growth for Q4 and going into 2019; 2) status of Swoop sales and launch, 3) updates on wide-body growth initiatives.

Maintaining Sector Perform. WestJet continues to report solid traffic numbers, but fare prices have been volatile. We believe there continues to be a lot of uncertainty surrounding the stock, particularly with the international expansion and complexity of launching Swoop during a backdrop of rising capacity and fuel costs. However, we feel that the stock may be reaching an inflection point as capacity and costs comes down. We have rolled forward our estimates to 2020, and slightly increased our Q3 yield assumptions given strong data from the Fare Tracker. Our price target moves to \$19 (from \$18). We still consider there to be better valuation upside in CHR and AC shares.

TRAFFIC DATA



	RBC CM Q3/18E			RBC CM 2018E			RBC CM 2019E			2020E
	Old	New	Var	Old	New	Var	Old	New	Var	New
Traffic: RPMs (% chg)	10.5%	8.6%	-192bp	7.0%	6.5%	-51bp	5.5%	5.5%	0bp	5.5%
Capacity: ASMs (% chg)	10.5%	10.0%	-54bp	6.1%	5.9%	-14bp	5.5%	5.5%	0bp	5.5%
Load Factor (%pts)	0.0%	-1.1%	-107bp	0.7%	0.4%	-29bp	0.0%	0.0%	0bp	0.0%
Yield (% chg)	-5.0%	-4.0%	100bp	-1.8%	-1.3%	53bp	1.5%	2.0%	50bp	1.5%
RASM (% chg)	-5.0%	-5.2%	-20bp	-0.9%	-0.7%	19bp	1.5%	2.0%	50bp	1.5%
Adj. CASM ex fuel+other items (% chg)	3.5%	3.7%	15bp	2.6%	2.5%	-8bp	0.8%	0.8%	6bp	0.0%
Avg Jet Fuel Price (\$C/Ltr)	0.72	0.84	17.3%	0.83	0.80	-3.2%	0.76	0.82	8.1%	0.79
Revenue	1,276	1,267	-0.7%	4,735	4,738	0.1%	5,070	5,098	0.6%	5,459
Expenses	1,057	1,055	-0.2%	4,007	4,012	0.1%	4,193	4,280	2.1%	4,508
EBITDAR	219	212	-3.2%	728	726	-0.3%	877	819	-6.7%	951
Consensus EBITDAR		212			723			912		1,066

Source: Bloomberg, RBC Capital Markets estimates, Company reports

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Air Buzz

As part of RBC Flight Deck, we highlight news with implications relevant to the regional jet and Canadian aerospace industry, in particular as related to Bombardier and CAE.

Bombardier

Regional jets

- **Airbus and Bombardier successfully test new regional aircraft bound for Delta Air Lines.** A new aircraft that will support Delta Air lines well into the next decade is in the process of final flight testing this weekend. On Saturday, BBA510, or Bombardier Aerospace 510, left Montréal–Mirabel International Airport at 2:02PM local time for a brief test flight over the greater Montreal region. After ascending up to 20,000 feet, the aircraft, which has the tail number of N101DU, successfully landed at around 4PM local time. BBA510 was unique because it will be the first aircraft delivered to Delta under a new joint partnership between Airbus and Canadian manufacturer Bombardier. (Source: Forbes, October 6th)

Business jets

- **It's official: Bombardier Global 7500 is Certified.** Bombardier celebrated the much-anticipated receipt of Transport Canada type certification of its 7,700-nm, four-zone, flagship 7500. Transport Canada awarded the certification during a ceremony held at Bombardier's Global Completion Center in Montreal. U.S. FAA and EASA certification are anticipated shortly, with deliveries slated to begin before year-end. Certification comes eight years after Bombardier took the wraps off its longest range and largest business jet to date. While the program incurred a two-year delay to accommodate a wing redesign, certification followed a two-year flight-test program that spanned five aircraft and accumulated more than 2,700 flight test hours. (Source: AIN Online, September 28th)
- **Bombardier to open new Miami business jet service center:** Bombardier is investing roughly \$100 million to open a new business aircraft service center near Miami in 2020. The planned site at Miami-Opa Locka Executive airport will provide business jet customers with general maintenance, aircraft modifications, avionics installations and other support, Bombardier says on 3 October. The site will also include a paint shop. Bombardier will support Learjets, Challengers and Global business jets at the roughly 300,000ft² (27,900m²) facility. (Source: Flight Global, October 4th)

CAE

Civil

- **CAE deploys new FFS for joint venture with Japan Airlines:** As part of the JAL-CAE Flight Training (JCFT) joint venture, CAE has increased its pilot training capacity in Tokyo with the inauguration of its first Airbus A320 full-flight simulator. The simulator is built by CAE and includes their latest training platform: CAE Rise. It is expected that this FFS will support the training needs of both Japanese and other airline customers in the region. With the addition of this training equipment, CAE Tokyo-JCFT will provide Boeing 737NG, 767, 777, 787 and Airbus A320 pilot training – bringing the total number of FFSs at the facility to 9. (CAE – September 27, 2018)
- **Ryanair launches training partnership with AFTA:** Ryanair and the Atlantic Flight Training Academy (AFTA) have joined forces to provide a 16-month Mentored Pilot Program to attract professional pilots and support the airlines' growth across Europe. The partnership is expected to create 50 new jobs for Ryanair, and AFTA expects to recruit and train up to 450 new pilots over the next 5 years as part of the program. (The Journal for Civil Aviation Training – September 20, 2018)



Military

- **Cubic Corporation to deliver F-35 training system for Lockheed Martin:** Cubic's Global Defense division won a contract from Lockheed Martin to provide an Air Combat Training System (ACTS) for the F-35 Lightning II. The ACTS includes the P5 Combat Training System, Internal Subsystem configuration, and P5 ground software. Cubic is expected to deliver over 500 F-35 Training Subsystems over the next four years as part of the agreement. (Military Simulation & Training Magazine – September 21, 2018)
- **Boeing awarded \$9.2B contract from the US Air Force:** Boeing Defense has been contracted to produce 351 T-X trainer jets, 46 simulators, and associated ground equipment for the United States Air Force (USAF). The contract, valued at up to \$9.2B, is an indefinite-delivery and indefinite-quantity award, which will let the USAF purchase up to 475 aircraft and 120 simulators. The US Air Force plans for the trainers to begin operating by 2024 and achieve full operational capability by 2034. Boeing's original design defeated bids from Lockheed Martin, Korea Aerospace Industries, and Leonardo. The USAF will pay \$813MM for an initial delivery order that will provide the engineering and manufacturing for the first five aircraft and seven simulators. (Flight Global – September 27, 2018)



Valuation

Air Canada

On a 4.3x EV/EBITDAR applied to our 2020 estimates, we derive our price target of \$33. Our discount to the peer legacy group average is 0.8x. Our base case reflects the following assumptions: (1) modest yield declines due to changing business mix related to AC's strategic transformation; (2) fleet expansion and strong demand to drive traffic growth; and (3) jet fuel prices to remain relatively range-bound at current levels. Our price target supports our Outperform, Speculative Risk, rating. Due to high debt leverage and operating in a cyclical sector, we believe a Speculative Risk qualifier is warranted.

Risks to our target include very high operating leverage given a fixed cost structure, above-average sensitivity to the economy, exposure to volatile fuel prices and the risk of terrorism and epidemics. Air Canada is not hedged to changes in jet fuel prices.

Chorus Aviation

Our \$11.00 price target on CHR shares is derived from an EV/EBITDAR multiple approach. We are applying a 6.5x EBITDAR multiple to our 2020E EBITDAR at \$490MM, which is a premium to the regional jet peers owing to the anticipated growth and diversification into regional aircraft leasing. This generates our \$11.00 price target, which is the basis of our Outperform rating.

Chorus Aviation's revenues and operating earnings are highly dependent on the CPA with Air Canada. The CPA agreement provides for a fixed fee per aircraft and other services rendered. Significant changes in the average daily utilization of aircraft by Air Canada covered by the CPA could impact the revenues and earnings generated under the CPA. Increases in Controllable Costs above the level estimated would reduce the margins earned on Scheduled Flights Revenue.

WestJet

Our \$19 price target is based on an EV/EBITDAR approach whereby we apply a 4.5x multiple to our 2020 estimate and is the basis of our Sector Perform rating. Our target multiple is a slight discount to mainline peer multiples, reflective of the execution risk and costs associated with the company's international and regional growth strategy.

Risks to our price target and estimates include the price of jet fuel, which is tied to oil prices, the strength of the domestic economy, the competitive environment, and the ability to maintain a growth company valuation. Airline stocks in general are volatile and can significantly underperform or outperform the broader market on sentiment.



Appendix 1: Airline Comps

Symbol	11-Oct-18		EV/EBITDAR				EV/Sales				EBITDAR Margin				Net Debt to EBITDAR	EV (MM)	
	Price		2016	2017	2018E	2019E	2016	2017	2018E	2019E	2016	2017	2018E	2019E			
Discount Airlines																	
WestJet	WJA-CA	C\$	\$18.06	4.3x	4.1x	5.7x	4.7x	1.0x	0.9x	0.9x	0.8x	24%	22%	15%	17%	2.9x	4,161
Southwest	LUV-US	US\$	\$57.03	6.3x	7.0x	7.4x	6.6x	1.7x	1.6x	1.5x	1.4x	26%	23%	21%	22%	0.3x	33,964
JetBlue	JBLU-US	US\$	\$16.21	3.6x	4.3x	5.3x	4.8x	1.0x	0.9x	0.9x	0.8x	28%	22%	16%	17%	1.2x	6,646
Discount Average				4.7x	5.1x	6.1x	5.4x	1.2x	1.2x	1.1x	1.0x	26%	22%	18%	19%	0.8x	
Mainline Airlines																	
Air Canada	AC-CA	C\$	\$24.13	4.7x	4.4x	4.7x	4.0x	0.9x	0.8x	0.7x	0.7x	19%	18%	16%	17%	2.2x	13,045
Delta Air Lines	DAL-US	US\$	\$51.48	5.2x	5.4x	5.7x	5.2x	1.1x	1.1x	1.0x	1.0x	22%	21%	18%	19%	1.2x	45,497
United Continental	UAL-US	US\$	\$80.12	4.8x	5.5x	5.6x	5.2x	1.0x	0.9x	0.9x	0.8x	20%	17%	15%	16%	2.2x	35,620
American Airlines	AAL-US	US\$	\$31.27	4.8x	5.4x	6.5x	6.0x	1.0x	1.0x	0.9x	0.9x	22%	19%	14%	15%	4.3x	41,998
Mainline Average				4.9x	5.2x	5.6x	5.1x	1.0x	1.0x	0.9x	0.8x	21%	19%	16%	17%	2.6x	
Regional Airlines																	
Chorus Aviation	CHR-CA	C\$	\$6.83	8.3x	7.2x	6.1x	5.8x	2.1x	2.0x	1.9x	1.8x	25%	28%	31%	32%	4.3x	2,694
SkyWest Inc.	SKYW-US	US\$	\$50.15	6.8x	5.8x	6.9x	6.9x	2.1x	2.0x	2.0x	1.9x	30%	35%	29%	28%	4.1x	6,443
Regional Average				7.6x	6.5x	6.5x	6.4x	2.1x	2.0x	2.0x	1.9x	28%	31%	30%	30%	4.2x	
Airline Average				5.4x	5.4x	6.0x	5.5x	1.3x	1.3x	1.2x	1.1x	24%	23%	20%	20%	2.5x	

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at market close on October 11, 2018

Source: RBC CM estimates, Company Reports, Factset. Priced as of market close on October 11th, 2018.



Appendix 2: AC Model

AIR CANADA (TSX: AC/B, TSX: AC/A)

FY Dec 31	2016	2017A	Q1/18	Q2/18	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	2020E
Traffic / RPM (MMs)	76,481	85,137	20,440	22,654	28,193	20,754	92,040	21,053	23,334	29,038	21,376	94,802	97,172
% change	13.2%	11.3%	11.4%	8.2%	6.5%	7.0%	8.1%	3.0%	3.0%	3.0%	3.0%	3.0%	2.5%
Capacity / ASM (MMs)	92,726	103,492	24,862	27,269	33,068	25,522	110,721	25,608	28,087	34,060	26,287	114,042	117,464
% change	14.7%	11.6%	8.6%	7.5%	6.5%	5.5%	7.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Load Factor (%)	82.5%	82.3%	82.2%	83.1%	85.3%	81.3%	83.1%	82.2%	83.1%	85.3%	81.3%	83.1%	82.7%
change (% pts)	-1.0%	-0.2%	2.1%	0.5%	0.0%	1.1%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.4%
Yield (\$)	0.169	0.169	0.171	0.173	0.172	0.177	0.173	0.177	0.179	0.176	0.181	0.178	0.182
% change	-6.4%	0.1%	0.4%	2.0%	3.5%	3.5%	2.3%	3.5%	3.5%	2.5%	2.5%	3.0%	2.0%
RASM (Rev per unit of capacity, cents)	14.2	14.0	14.0	14.4	14.6	14.4	14.4	14.5	14.9	15.0	14.8	14.8	15.0
CASM (excl. fuel) (cents)	11.5	11.1	12.7	11.0	9.6	11.4	11.1	12.5	11.2	9.9	11.5	11.2	11.3
Total Revenues	14,677	16,252	4,071	4,333	5,282	4,151	17,837	4,313	4,608	5,561	4,365	18,847	19,655
Wages, salaries and benefits	2510	2671	700	711	700	694	2806	732	743	732	726	2933	3082
% Sales	17.1%	16.4%	17.2%	16.4%	13.3%	16.7%	15.7%	17.0%	16.1%	13.2%	16.6%	15.6%	15.7%
Aircraft Fuel - total	2606	3339	939	1099	1344	1111	4492	1095	1164	1406	1092	4756	4683
% Sales	17.8%	20.5%	23.1%	25.4%	25.4%	26.8%	25.2%	25.4%	25.3%	25.3%	25.0%	25.2%	23.8%
Sales and distribution costs	703	742	189	199	225	179	792	195	205	232	184	815	840
% Sales	4.8%	4.6%	4.6%	4.6%	4.3%	4.3%	4.4%	4.5%	4.4%	4.2%	4.2%	4.3%	4.3%
Food, beverages, supplies	349	383	96	108	126	94	424	99	111	129	97	436	449
% Sales	2.4%	2.4%	2.4%	2.5%	2.4%	2.3%	2.4%	2.3%	2.4%	2.3%	2.2%	2.3%	2.3%
Aircraft maintenance	883	938	256	220	248	304	1028	265	228	257	314	1064	1117
% Sales	6.0%	5.8%	6.3%	5.1%	4.7%	7.3%	5.8%	6.1%	4.9%	4.6%	7.2%	5.6%	5.7%
Airport and navigation fees	859	905	221	237	288	212	958	228	244	296	218	986	1016
% Sales	5.9%	5.6%	5.4%	5.5%	5.4%	5.1%	5.4%	5.3%	5.3%	5.3%	5.0%	5.2%	5.2%
Communications and information tech	242	254	79	67	66	58	270	81	69	68	59	278	275
% Sales	1.6%	1.6%	1.9%	1.5%	1.3%	1.4%	1.5%	1.9%	1.5%	1.2%	1.4%	1.5%	1.4%
Other	3268	3526	918	932	985	872	3707	919	994	1037	895	3845	4010
% Sales	22.3%	21.7%	22.5%	21.5%	18.7%	21.0%	20.8%	21.3%	21.6%	18.7%	20.5%	20.4%	20.4%
Regional airline expense (ex fuel and	2027	2137	542	588	563	519	2211	574	625	592	546	2337	2438
% Sales	13.8%	13.1%	13.3%	13.6%	10.7%	12.5%	12.4%	13.3%	13.6%	10.7%	12.5%	12.4%	12.4%
Total Operating Costs	11,420	12,758	3,398	3,573	3,982	3,522	14,475	3,613	3,758	4,158	3,585	15,114	15,472
EBITDAR	2,768	2,956	397	646	1,218	519	2,780	416	732	1,318	668	3,134	3,566
% of sales	18.9%	18.2%	9.8%	14.9%	23.1%	12.5%	15.6%	9.6%	15.9%	23.7%	15.3%	16.6%	18.1%
EPS (F.D) (\$) (Exc. Special charges)	\$ 4.11	\$ 4.15	\$ (0.19)	\$ 0.41	\$ 2.04	\$ 0.24	\$ 2.50	\$ (0.14)	\$ 0.62	\$ 1.92	\$ 0.56	\$ 2.96	\$ 4.00

Source: RBC CM estimates, Company reports



Appendix 3: WJA Model

WESTJET (TSX: WJA)

FY Dec. 31 (\$MM's)	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	Q1/18	Q2/18	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	2020E
Traffic (RPMs in MM)	23,967	6,393	6,260	6,922	6,329	25,904	6,810	6,645	7,516	6,614	27,585	7,186	7,012	7,929	6,978	29,104	30,705
% change	11.3%	6.8%	8.9%	7.9%	8.8%	8.1%	6.5%	6.1%	8.6%	4.5%	6.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Capacity (ASMs in MM)	29,299	7,699	7,564	8,076	7,659	30,998	8,029	7,922	8,880	8,004	32,835	8,466	8,358	9,368	8,444	34,636	36,541
% change	8.9%	5.5%	6.3%	5.8%	5.6%	5.8%	4.3%	4.7%	10.0%	4.5%	5.9%	5.4%	5.5%	5.5%	5.5%	5.5%	5.5%
Load Factor in (%)	81.8%	83.0%	82.8%	85.7%	82.6%	83.6%	84.8%	83.9%	84.6%	82.6%	84.0%	84.9%	83.9%	84.6%	82.6%	84.0%	84.0%
change (%pts)	1.8%	0.9%	2.0%	1.7%	2.4%	1.8%	1.8%	1.1%	-1.1%	0.0%	0.4%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (cents per RPM)	17.20	17.44	16.91	17.56	17.66	17.40	17.50	16.36	16.86	18.01	17.17	17.85	16.69	17.19	18.37	17.52	17.78
% change	-8.1%	1.3%	2.4%	0.2%	0.9%	1.1%	0.3%	-3.2%	-4.0%	2.0%	-1.3%	2.0%	2.0%	2.0%	2.0%	2.0%	1.5%
RASM (Revenue per unit of capacity, cents)	14.1	14.5	14.0	15.1	14.6	14.5	14.8	13.7	14.3	14.9	14.4	15.1	14.0	14.6	15.2	14.7	14.9
CASM (excl. fuel) (cents)	10.0	10.4	10.0	9.6	10.3	10.1	10.6	10.3	9.6	10.2	10.2	10.7	10.2	9.7	10.3	10.2	10.4
Total Revenues	4,122.9	1,114.7	1,058.3	1,215.6	1,117.4	4,506.0	1,191.7	1,087.6	1,267.0	1,191.2	4,737.5	1,282.6	1,170.3	1,363.4	1,281.8	5,098.2	5,459.3
% change	2.3%	8.1%	11.5%	8.1%	9.8%	9.3%	6.9%	2.8%	4.2%	6.6%	5.1%	7.6%	7.6%	7.6%	7.6%	7.6%	7.1%
Airport Operations	581.9	168.9	154.5	127.1	158.7	609.3	172.9	161.8	134.5	165.9	635.0	182.3	164.2	141.9	175.0	663.4	699.9
% change	4%	6%	6%	6%	2%	5%	2%	5%	6%	4%	4%	5%	1%	5%	6%	4%	5%
Aircraft Fuel	765.9	235.5	224.9	238.0	251.6	950.0	281.2	302.3	358.4	328.2	1269.9	336.5	326.0	367.6	327.3	1357.4	1376.0
% change	-6%	42%	23%	15%	20%	24%	19%	34%	51%	30%	34%	20%	8%	3%	0%	7%	1%
Maintenance	231.5	62.0	56.7	65.7	58.2	242.6	63.4	59.4	69.5	60.9	253.2	66.9	60.2	73.3	64.2	264.7	279.2
% change	1%	6%	6%	6%	2%	5%	2%	5%	6%	4%	4%	5%	1%	5%	5%	5%	5%
Sales & Distribution	442.7	114.4	109.6	127.1	112.6	463.9	117.1	114.8	134.5	117.7	484.1	123.5	116.5	141.9	124.2	506.1	533.9
% change	16%	6%	6%	6%	2%	5%	2%	5%	6%	4%	4%	5%	1%	5%	5%	5%	5%
Marketing, General & Administrative	243.2	64.3	59.8	69.3	61.4	254.9	65.8	62.6	73.3	64.2	266.0	69.4	63.6	77.4	67.7	278.1	293.4
% change	5%	6%	6%	6%	2%	5%	2%	5%	6%	4%	4%	5%	1%	5%	5%	5%	5%
Customer Service (Reservations)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% change	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Flight Operations	567.9	150.4	139.5	161.8	143.4	595.1	154.0	146.1	171.1	149.8	621.0	162.3	148.3	180.5	158.1	649.2	684.9
% change	14%	6%	6%	6%	2%	5%	2%	5%	6%	4%	4%	5%	1%	6%	6%	5%	5%
In-Flight	232.1	62.1	56.8	65.9	58.4	243.2	63.6	59.5	69.7	61.0	253.8	67.1	60.4	73.5	64.4	265.3	279.9
% change	12%	6%	6%	6%	2%	5%	2%	5%	6%	4%	4%	5%	1%	5%	5%	5%	5%
Employee Profit Sharing	59.3	7.0	7.8	27.6	4.4	46.8	6.4	-3.3	0.0	0.0	3.1	0.0	0.0	0.0	0.0	0.0	54.6
EBITDAR (after profit sharing)	969.0	220.8	218.3	342.4	224.5	1,006.0	200.9	117.9	211.8	194.9	725.6	192.0	131.8	250.4	244.4	818.6	951.2
% of sales	23.5%	19.8%	20.6%	28.2%	20.1%	22.3%	16.9%	10.8%	16.7%	16.4%	15.3%	15.0%	11.3%	18.4%	19.1%	16.1%	17.4%
EPS F.D.	2.45	0.40	0.41	1.18	0.41	2.40	0.32	(0.18)	0.28	0.19	0.61	0.15	(0.14)	0.45	0.44	0.90	1.47

Source: Company Reports; RBC Capital Markets Estimates



Appendix 4: CHR Model

Chorus Aviation (TSX: CHR)

FY Dec 31	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	Q1/18	Q2/18	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	2020E
Billable Block Hours ('000s)	342,768	84,515	88,795	96,674	89,353	359,337	88,153	90,639	98,682	91,209	368,682	90,357	92,905	101,149	93,489	377,899	387,347
% change	-6.9%	0.2%	7.0%	6.2%	5.9%	4.8%	4.3%	2.1%	2.1%	2.1%	2.6%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Chorus Aviation Income Statement (\$MM)																	
Revenue	1,277	321	333	345	357	1,355	348	378	398	426	1,489	392	437	447	508	1,785	1,809
% change	-17.3%	0.0%	7.5%	4.1%	13.2%	6.1%	8.4%	13.5%	15.4%	19.5%	14.3%	12.9%	15.5%	12.3%	19.4%	15.2%	1.4%
Salaries, wages and benefits	433	114	112	109	110	445	117	109	114	116	457	121	111	116	119	467	477
% Sales	34%	36%	33%	32%	31%	33%	34%	29%	29%	27%	31%	31%	26%	26%	23%	26%	26%
Depreciation and amortization	81	22	23	27	31	103	30	30	30	30	119	30	30	29	29	118	93
% Sales	6%	7%	7%	8%	9%	8%	9%	8%	8%	7%	8%	8%	7%	7%	6%	7%	5%
Food and beverage	13	3	0	0	0	4	0	0	0	0	0	0	0	0	0	0	0
% Sales	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Aircraft maintenance	168	44	46	44	58	193	54	75	71	101	300	64	121	115	176	476	488
% Sales	13%	14%	14%	13%	16%	14%	15%	20%	18%	24%	20%	16%	28%	26%	35%	27%	27%
Airport and navigation fees	161	39	43	46	39	167	40	43	47	40	170	41	45	50	42	178	184
% Sales	13%	12%	13%	13%	11%	12%	11%	11%	12%	9%	11%	11%	10%	11%	8%	10%	10%
Aircraft rent	91	25	27	24	24	99	24	24	24	24	97	24	24	24	24	97	97
% Sales	7%	8%	8%	7%	7%	7%	7%	6%	6%	6%	7%	6%	6%	5%	5%	5%	5%
Terminal handling	39	9	6	6	6	28	6	5	6	6	24	6	5	6	7	25	25
% Sales	3%	3%	2%	2%	2%	2%	2%	1%	2%	1%	2%	2%	1%	1%	1%	1%	1%
Other	136	35	38	32	37	142	32	38	37	38	144	38	40	39	39	156	143
% Sales	11%	11%	11%	9%	10%	10%	9%	10%	9%	9%	10%	10%	9%	9%	8%	9%	8%
Total Operating Expenses	1,125	293	295	289	307	1,183	303	324	330	356	1,313	325	376	381	436	1,519	1,509
Operating Income	151	28	38	56	50	172	45	54	68	70	176	68	61	65	72	266	300
EBITDAR	324	75	88	107	105	374	99	108	122	124	453	122	115	119	126	481	490
% of sales	25.4%	23.3%	26.4%	31.0%	29.4%	27.6%	28.4%	28.6%	30.7%	29.1%	30.4%	31.0%	26.2%	26.7%	24.7%	27.0%	27.1%
EBITDA	233	50	61	83	81	275	75	85	98	99	336	97	90	95	101	384	393
% of sales	53.8%	43.6%	54.7%	76.2%	73.6%	61.8%	63.5%	77.8%	86.3%	85.6%	73.6%	80.2%	81.0%	81.9%	85.6%	82.2%	82.5%
Net Income	102	17	47	76	40	180	-9	10	34	36	75	37	33	36	40	146	171
EPS (F.D) (\$) (Excluding Special charges)	\$0.89	\$0.21	\$0.32	\$0.62	\$0.16	\$1.32	\$0.04	\$0.12	\$0.25	\$0.26	\$0.69	\$0.27	\$0.24	\$0.26	\$0.29	\$1.06	\$1.23
CFPS (F.D) (\$) (Excluding Special charges)	\$1.69	\$0.38	\$0.41	\$0.58	\$0.49	\$1.87	\$0.43	\$0.52	\$0.61	\$0.62	\$1.83	\$0.48	\$0.45	\$0.47	\$0.50	\$1.91	\$1.91

Source: Company reports, RBC Capital Markets estimates



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RBC Dominion Securities Inc. makes a market in the securities of Chorus Aviation Inc..

RBC Capital Markets has provided Chorus Aviation Inc. with investment banking services in the past 12 months.

The Class A shares of Chorus Aviation Inc. are variable voting shares.

RBC Dominion Securities Inc. makes a market in the securities of WestJet Airlines Ltd..

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from WestJet Airlines Ltd. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to WestJet Airlines Ltd..

RBC Capital Markets is currently providing WestJet Airlines Ltd. with non-securities services.

The Class A shares of WestJet Airlines Ltd. are variable voting shares.

Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.



Restricted (R): RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances.

Not Rated (NR): The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

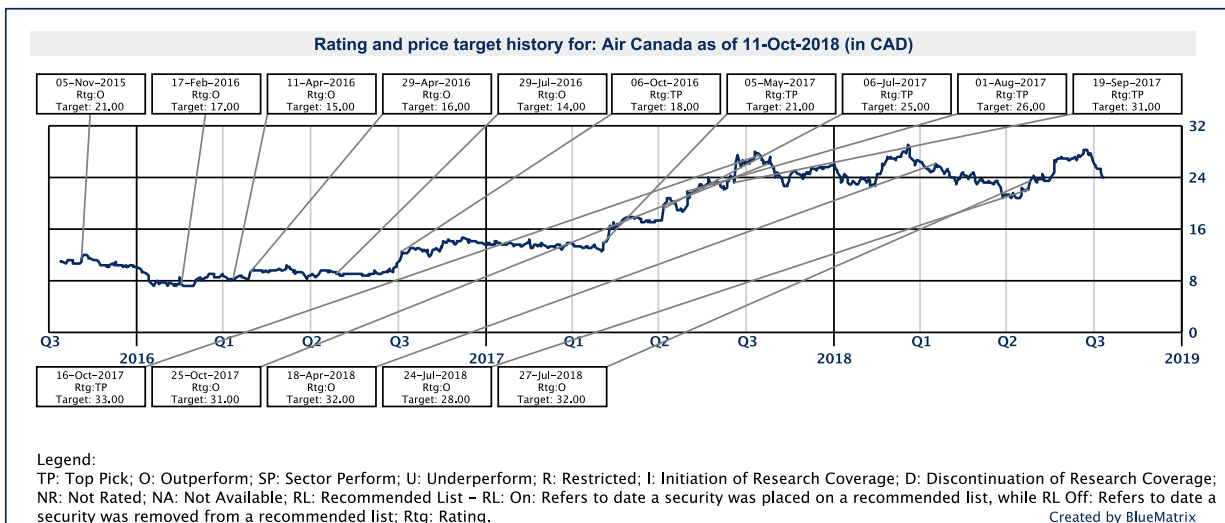
Risk Rating

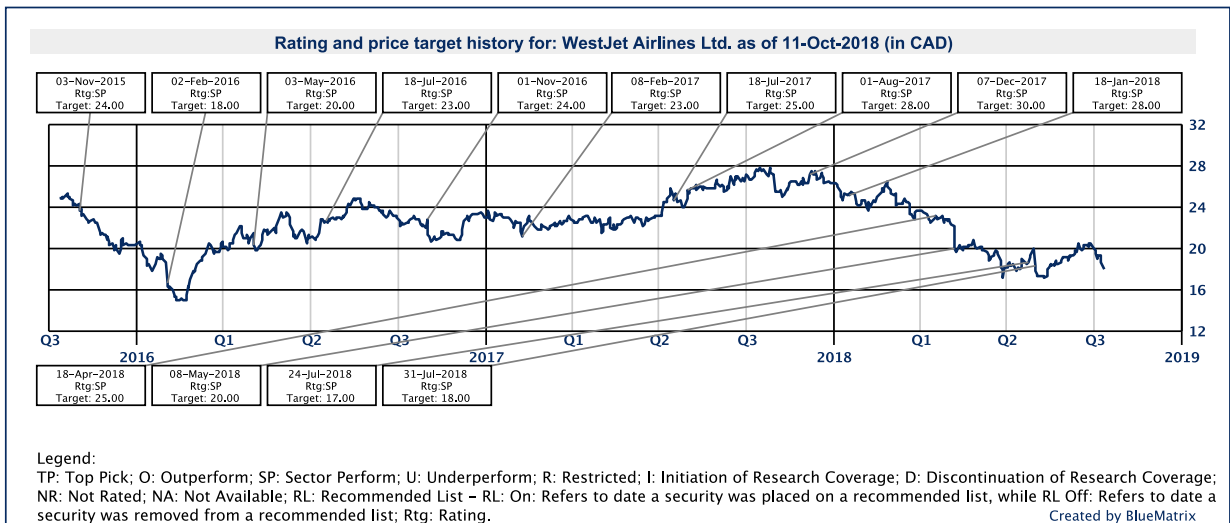
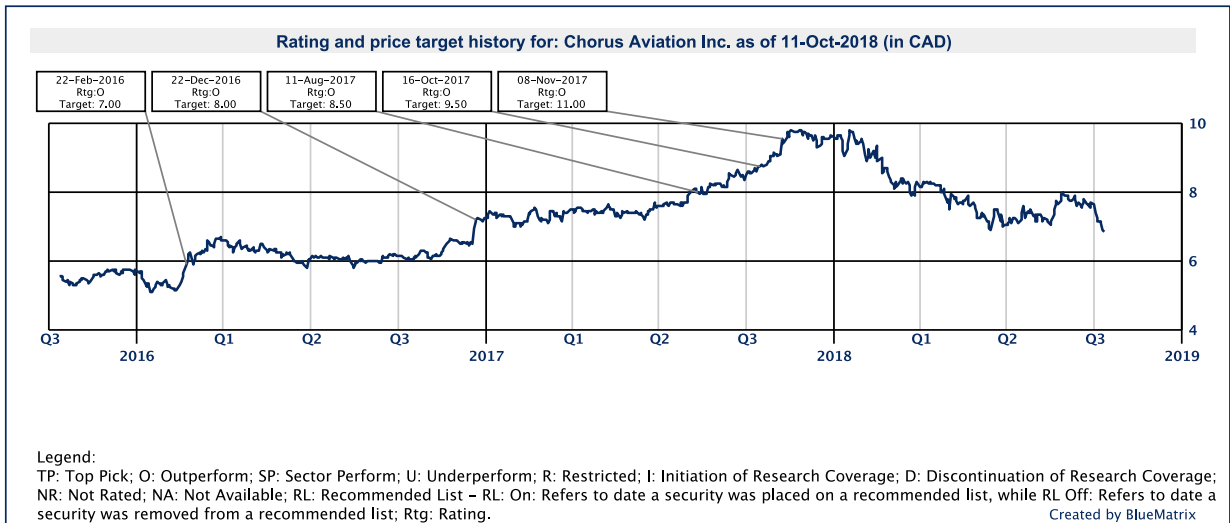
The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

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Distribution of ratings RBC Capital Markets, Equity Research As of 30-Sep-2018				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	859	54.33	251	29.22
HOLD [Sector Perform]	646	40.86	125	19.35
SELL [Underperform]	76	4.81	5	6.58





References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12), and former lists called the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Midcap 111 (RL 9), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

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Air Canada

Valuation

Our \$32.00 target price is based on a 5.2x EV/EBITDAR multiple applied to our 2019 estimates, which is a 0.6x discount to the group average multiple. Our base case reflects the following assumptions: (1) modest yield declines due to changing business mix related to AC's strategic transformation; (2) fleet expansion and strong demand to drive traffic growth; and (3) jet fuel prices to remain relatively range-bound at current levels. Our price target supports our Outperform, Speculative Risk rating. Due to high debt leverage and operating in a cyclical sector, we believe a Speculative Risk qualifier is warranted.

Risks to rating and price target

Risks to our price target and rating include but are not limited to very high operating leverage given a fixed-cost structure, above-average sensitivity to the economy, exposure to volatile fuel prices and the risk of terrorism and epidemics. This is a very competitive industry in which WestJet is capturing domestic market share. Air Canada is only partially hedged to changes in jet fuel prices.

Chorus Aviation Inc.

Valuation

Our \$11.00 price target is derived from a sum-of-the-parts valuation. We value Chorus's core-CPA segment at a 6.5x EV/EBITDAR multiple based on our 2019 estimates and we value the company's new leasing segment at a 7.0x P/E multiple based on our assumptions for operating and funding costs attributable to the segment. This generates our \$11.00 price target, which is the basis of our Outperform rating.

Risks to rating and price target

Chorus Aviation's revenues and operating earnings are highly dependent on the CPA with Air Canada. The CPA agreement provides for a fixed fee per aircraft and other services rendered. Significant changes in the average daily utilization of aircraft by Air Canada covered by the CPA could impact the revenues and earnings generated under the CPA. Increases in Controllable Costs above the level estimated would reduce the margins earned on Scheduled Flights Revenue.

WestJet Airlines Ltd.

Valuation

Our \$18 price target is based on an EV/EBITDAR approach whereby we apply a 4.7x multiple to our 2019 estimate and is the basis of our Sector Perform rating. Our target multiple is a slight discount to recent LCC peer multiples, reflective of the execution risk and costs associated with the company's international and regional growth strategy.

Risks to rating and price target

Risks to our price target and rating include but are not limited to the price of jet fuel, which is tied to oil prices, the strength of the domestic economy, the competitive environment, and the ability to maintain a growth company valuation. Airline stocks in general are volatile and can significantly underperform or outperform the broader market on sentiment.

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