EQUITY RESEARCH

RBC Capital Markets

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RBC Flight Deck

Q4 preview - Airline trends somewhat mixed ahead of Q4

Q4/19 preview. As we look ahead to the upcoming Q4 results, we note airline fundamentals remain somewhat mixed. From a positive perspective, global trends (per IATA) are favourable and (based on our Fare Tracker) fare pricing remains up on a Y/Y basis (Ex. 3). On the flip side, IATA points out that traffic in North America has dipped below capacity (at least up to November (see Ex. 2)) – and of course, concerns continue around the re-entry of the MAX. Finally, while fares for AC (per our Fare Tracker) are up Y/Y, they have dipped Q sequentially, however this may relate to the tight capacity in the peak Q3 season. All that said, we are modelling Q4 results to show another strong holiday travel season, but we remain slightly more cautious as we head into 2020.

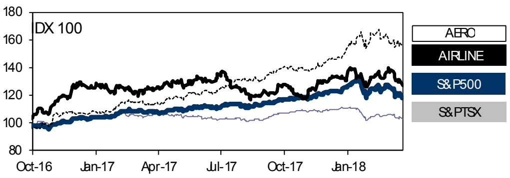
RBC Fare Survey points to moderating strength in Q4 yields. Our proprietary Fare Survey tracks price changes on selected routes to gauge the direction and magnitude of fare prices. Based on this data, overall fare growth was up +2.2% Y/Y for AC, and WestJet fares ended the quarter up +10.5% Y/Y (albeit off lower comps). While fares are therefore still positive Y/Y, the growth rate has moderated sequentially.

Updating estimates ahead of Q4. We kept our Q4 estimates mostly unchanged; however, we made modest changes to 2020 and 2021 estimates for AC due to a push-back in our MAX re-entry assumption and fuel curve updates. We point out that we no longer cover WestJet following the privatization by Onex. Highlights are below, with further details on pages 5-6.

- **AC: Maintaining Outperform; maintaining price target of $59.** We are maintaining our Q4 traffic and capacity growth assumptions at +3% Y/Y. As signaled by our Fare Tracker, we continue to model strong pricing (yield of +4.5%). We are calling for 15.7% EBITDA margins in Q4 - recall, mgmt guided last quarter to 2019 EBITDA margin of 19% – which would imply a margin of at least 15.5% in Q4. In terms of 2020 guidance, given the uncertainty surrounding the MAX, we expect mgmt may defer the release of new guidance; however we note that our 19.3% in 2020 and 21.9% in 2021 aligns with mgmt's long term guidance of 19-22%.
- **CHR: Maintaining Outperform and $9.00 price target:** We have largely kept estimates unchanged ahead of the quarter, and note the company already provided an annual summary of new CAC leasing transactions for 2019. We note that we are in-line with consensus estimates for Q4 and full year 2019. During the call, we will be listening for any commentary regarding the health of the regional jet leasing market.

In this edition...

INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTSX	(0.8)	14.6	5.7	▼
S&P 500	(1.4)	17.2	5.5	▼
AMEX Airline	0.9	9.2	2.7	Δ
AMEX Aerospace	0.4	28.7	6.4	Δ



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	(8.9)	9.1	(27.7)	▼
Jet Fuel	3.9	16.3	(16.1)	Δ
CAD/USD	1.1	(2.5)	1.8	Δ
AEROSPACE				
Bombardier	(15.7)	(21.9)	(59.9)	▼
Boeing	1.2	15.9	1.7	Δ
EADS	(4.4)	39.2	18.1	▼
Embraer	(9.3)	(24.9)	(17.2)	▼
General Dynamics	(5.4)	13.1	(10.2)	▼
Textron	(5.2)	3.6	(29.3)	▼
United Technologies	(0.4)	25.2	1.7	▼
N.A. MAINLINE				
Air Canada	3.4	68.8	81.6	Δ
AMR	(8.2)	(16.7)	(15.4)	▼
Delta	(11.5)	3.9	4.3	▼
United	(1.3)	3.2	9.4	▼
N.A. REGIONAL				
Alaska	(1.3)	5.4	6.5	▼
Allegiant	0.7	47.9	29.3	Δ
Chorus Aviation	1.7	34.9	10.0	Δ
JetBlue	(0.3)	4.0	0.5	▼
SkyWest	(7.0)	24.2	8.6	▼
Southwest	0.0	14.9	(6.9)	Δ
WestJet	0.1	69.9	66.6	Δ
INTL. AIRLINES				
Lufthansa	(1.5)	(27.3)	(25.9)	▼
Air France/KLM	9.3	3.9	16.1	Δ
BA/Iberia	4.8	(19.9)	(16.3)	Δ
Cathay Pacific	(7.1)	(56.7)	(62.9)	▼
Air China	(4.8)	(1.8)	(1.2)	▼
China Eastern	(4.5)	(12.8)	(14.8)	▼
China Southern	(1.5)	(2.9)	5.8	▼
Singapore Airlines	(0.9)	(4.4)	(5.2)	▼
Qantas	4.1	9.7	14.8	Δ

Source: Bloomberg

Priced as of prior trading day's market close, EST (unless otherwise noted).
All values in CAD unless otherwise noted.

Disseminated: Jan 23, 2020 00:45ET; Produced: Jan 22, 2020 17:54ET

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 11.

Canadian Airlines Q4/19 preview

Airline fundamentals somewhat mixed ahead of Q4

From a positive perspective, global trends (per IATA) are favourable and fare pricing remains up on a Y/Y basis (Exhibit 3). On the flip side, IATA points to traffic in North America has dipped below capacity (at least up to November (see Exhibit 2)) – and of course, concerns continue around the re-entry of the MAX 737. Finally, while fares for Air Canada (per our Fare Tracker) are up Y/Y, they have dipped sequentially, however this may relate to the tight capacity in the peak Q3 season.

Key will be the commentary on the AC call regarding the above factors, and what management decides to do with regards to guidance given the MAX re-entry is still uncertain. All that said, we are modelling fourth quarter results to show another strong holiday travel season, but we remain slightly more cautious as we head into 2020.

In this report, we discuss:

- traffic trends during the quarter
- fare trends measured by our fare tracker
- a look at the performance of the Canadian airlines during the quarter; and
- a discussion of our Q4 estimates for each company in our coverage.

Q4 Estimates

Our Q4 estimates are mostly unchanged ahead of the reporting season. However, we made modest changes to 2020 and 2021 estimates for AC due to a push-back in our MAX re-entry assumption and fuel curve updates. We point out that we no longer cover WestJet following the privatization by Onex. Details are in the estimates summary below:

Exhibit 1: Estimate Changes ahead of the quarter

	Q4 2019 EBITDA			2019E EBITDA			2020E EBITDA			2021E EBITDA			Target Multiple		Price Target (CAD)			
	Prior	RBC	Street	Prior	RBC	Street	Prior	RBC	Street	Prior	RBC	Street	Old	New	RBC	New	Rating	Implied Return
Airlines																		
Air Canada	$689	**$690**	$693	$3,660	**$3,661**	$3,668	$4,096	**$3,826**	$4,085	$4,621	**$4,628**	$4,585	*4.0x*	**4.0x**	$59	**$59**	O	+15%
Chorus Aviation	$101	**$101**	$96	$352	**$352**	$349	$420	**$420**	$427	$475	**$475**	$479	*6.0x*	**6.0x**	$9	**$9**	O	+7%

Source: Air Canada, WestJet, RBC Capital Markets estimates

IATA Traffic Data points to robust global demand

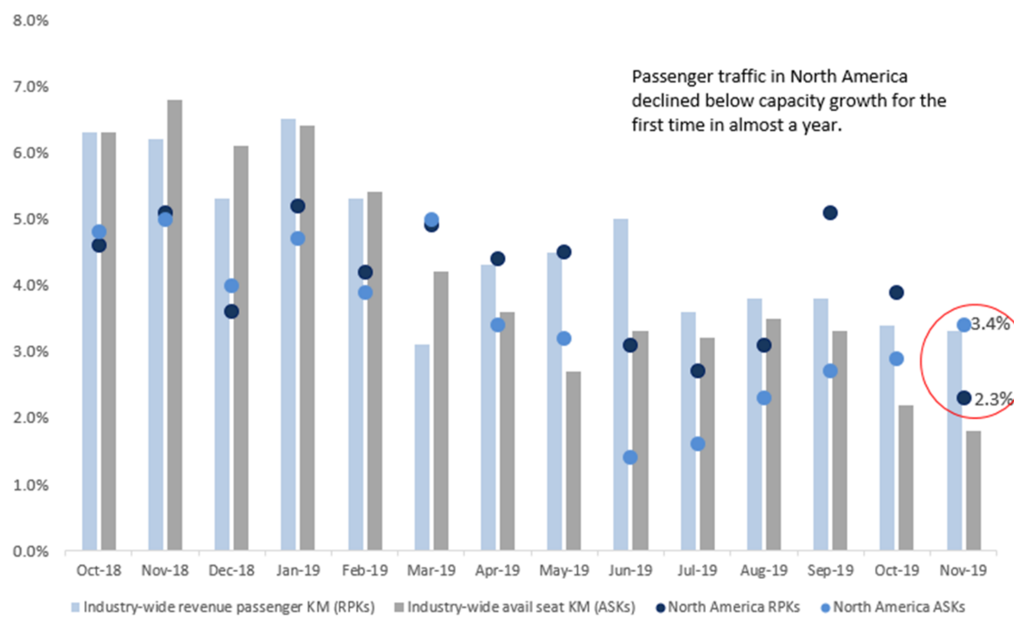
To gauge global air traffic conditions, we use data by the industry trade group International Air Transport Association (IATA), which provides an estimate of traffic, capacity, and load factor, broken down by region. This data does come with a bit of a time lag (~6 weeks), but still gives a good indication of overall sentiment ahead of the quarterly reporting season. We summarize some of this data in Exhibit 2.

Global traffic remains steady, but dips in North America. According to IATA, global demand remains solid, with a 3.3% increase in Revenue Passenger Km's (RPK's) in November Y/Y (and 3.4% in October), in-line with the long-term average of 3.3% (according to IATA statistics). North American traffic, however, declined to the lowest growth rate in over a year, up 2.3% Y/Y in November. We will monitor to ensure this slowing growth rate does not become a trend;

however, we point out that the airlines that have reported Q4 results so far (Delta), have shown strong demand over the holiday travel season.

Global capacity remains contained. The data also shows global capacity remains contained and well below traffic – capacity rose +1.8% Y/Y in November. However, capacity in North America rose +3.4%, notably above traffic, which means North American load factors declined. This may be temporary and the result of year-end fleet additions, but we will monitor closely in the next few quarters.

Exhibit 2: Traffic (RPKs) and capacity (ASKs) as reported by IATA shows



Source: IATA .org

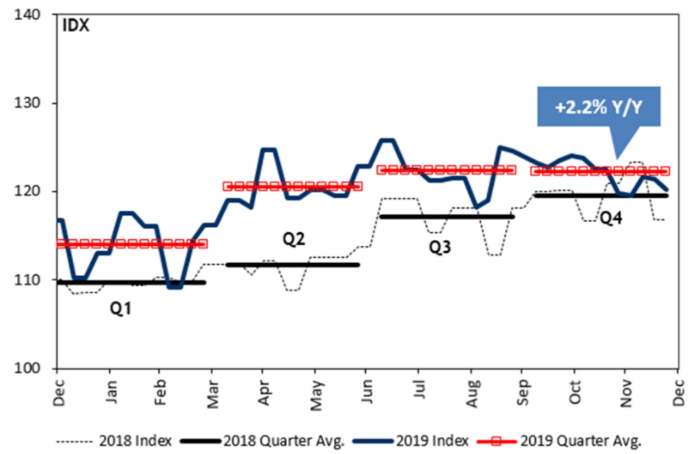
Fare tracker points to moderating strength in Q4 yields

The RBC Fare Survey is pointing toward another quarter of positive Y/Y fare price growth for Canadian airlines in Q4, albeit at a moderating pace. For Air Canada, this is the tenth consecutive quarter that our Survey has registered positive growth for the company, with the RBC Fare Survey index up **+2.2% Y/Y** for Air Canada. Interestingly, fares were lower in the International segment, but offset by strength in the Domestic segment. Fares were mostly flat in the Transborder and Vacation segments throughout the quarter.

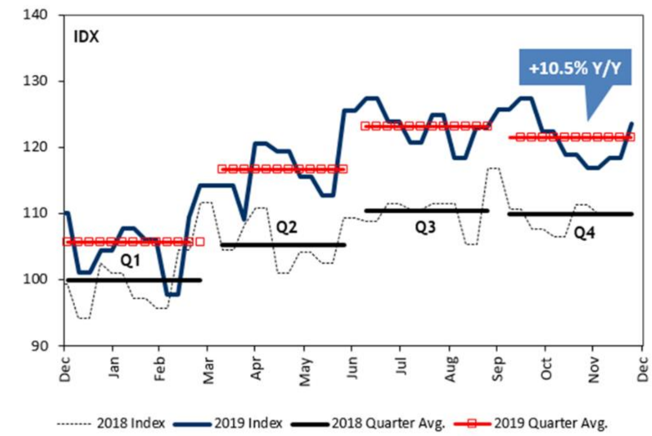
WestJet fares, as measured by our Fare Tracker, were volatile in the quarter. Fares mostly trended downward in the first two months, but then spiked in December and ended the quarter rising a very healthy **10.5% Y/Y** in Q4.

Exhibit 3: Fares were volatile but ended the quarter higher

RBC Fare Tracker – Air Canada



RBC Fare Tracker – WestJet

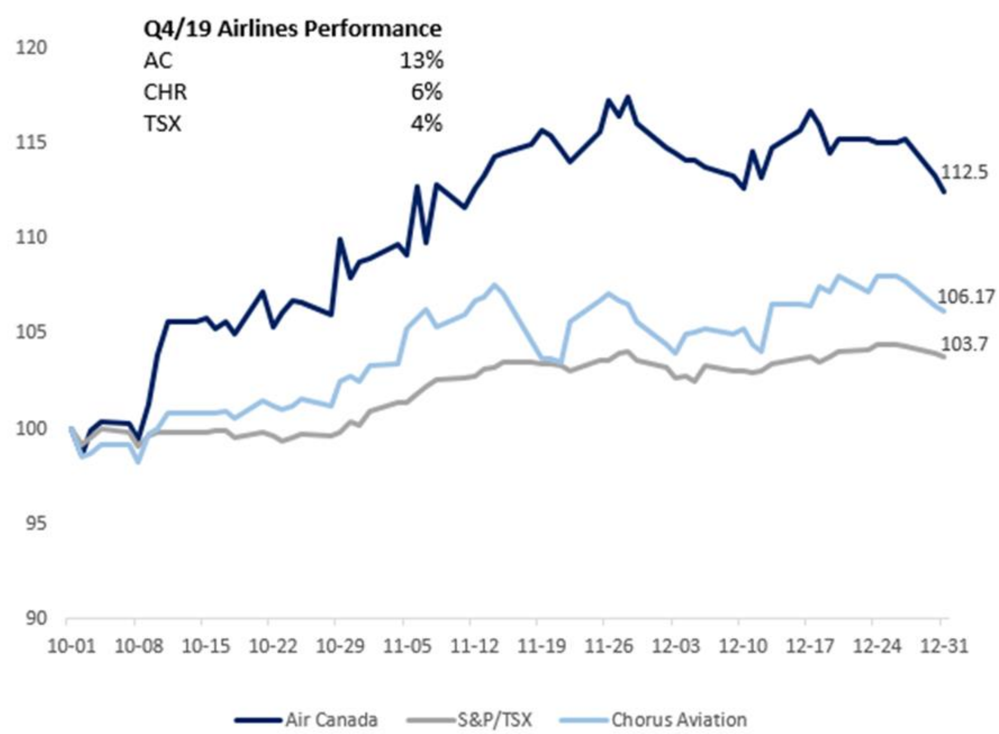


Source: Air Canada, WestJet, RBC Capital Markets estimates

Air Canada outperforms in Q4

Air Canada shares surged following the release of solid Q3 results on October 29th, and kept the positive momentum throughout the remainder of the quarter. Chorus Aviation shares similarly performed well, with both airlines outperforming the TSX.

Exhibit 4: Air Canada outperform the TSX in Q4



Source: Factset, RBC Capital Markets

Air Canada (TSX: AC) — Outperform; $59 Target (unchg)

SUMMARY

Market price:	$48.68	52-Wk High:	$52.71
Yield (12-mth):	0.0%	52-Wk Low:	$27.79
Total est. return:	21%	Mkt Cap (MM):	$13,290
Shares O/S (MM):	273.0	Net Debt (MM):	$3,133
Float (MM):	$13,290	EV (MM):	$16,423

CONFERENCE CALL DETAILS

- Wednesday February 19th, at 8:30AM ET
- 1-800-478-9326

STOCK SET-UP

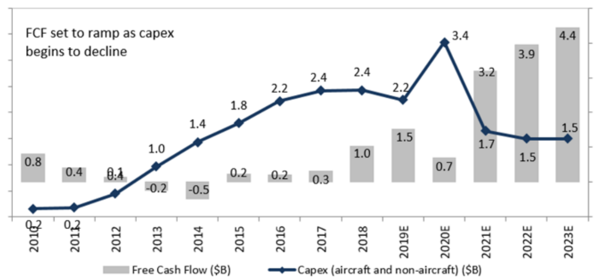
Q4/19 Performance	
Absolute	13%
vs. S&P TSX	262bps
Short Interest (Days to Cover)	
Current	1.8
Analyst Sentiment	
Outperform	81%
Sector Perform	19%
Underperform	0%

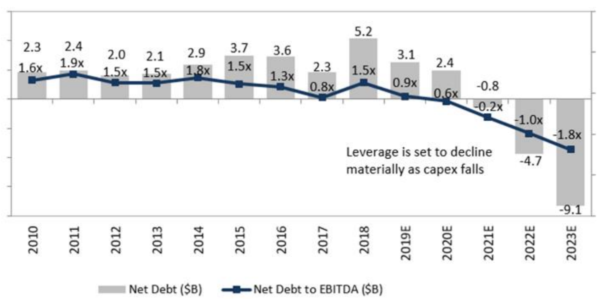
No change to Q4 inputs – guidance a question mark. We are maintaining our Q4 traffic and capacity growth assumptions at +3% Y/Y. As signaled by our Fare Tracker, we continue to model strong pricing (yield of +4.5%). We are calling for 15.7% EBITDA margins in Q4 - recall, mgmt guided last quarter to 2019 EBITDA margin of 19% – which would imply a margin of at least 15.5% in Q4. In terms of 2020 guidance, given the uncertainty surrounding the MAX, we expect mgmt may defer the release of new guidance; however we note that our 19.3% in 2020 and 21.9% in 2021 aligns with mgmt's long term guidance of 19-22%.

Adjusting for MAX. We have kept Q4 estimates largely unchanged, but updated for the fuel curve, and delayed our assumption for the MAX re-entry from 2020 to Jan 1, 2021. This affects our 2020 estimates, which goes to $3,826MM (from $4,096MM); however our 2021 is relatively unchanged (to $4,628MM (from $4,621MM). Our target multiple is unchanged at 4.0x and price target remains at $59.

Area of focus. Our focus will be on the management's commentary around the MAX, overall traffic trends, an update on the Aeroplan integration, and finally, we will watch for trends in capex and progress toward FCF generation, as they are key to our thesis.

FCF and Leverage





	Q4/19E			2019E			2020E			2021E		
	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var
Traffic: RPMs (% chg)	3.0%	3.0%	0bp	1.9%	1.9%	0bp	5.0%	0.7%	-430bp	1.0%	5.0%	400bp
Capacity: ASMs (% chg)	3.0%	3.0%	0bp	1.7%	1.7%	0bp	5.0%	0.7%	-429bp	1.0%	5.0%	400bp
Load Factor (%pts)	81.2%	81.2%	0bp	83.5%	83.5%	0bp	83.5%	83.5%	-1bp	83.5%	83.5%	-1bp
Yield (% chg)	4.5%	4.5%	0bp	5.3%	5.3%	0bp	2.5%	3.0%	50bp	2.5%	2.0%	-50bp
RASM (% chg)	1.8%	1.8%	0bp	4.8%	4.8%	0bp	2.6%	3.1%	49bp	2.5%	2.0%	-50bp
Adj. CASM ex fuel+other (% chg)	3.4%	3.4%	0bp	7.9%	7.9%	0bp	1.1%	2.5%	136bp	1.2%	-0.5%	-167bp
Avg Jet Fuel Price: ($C/Ltr)	$0.77	$0.77	-0.1%	$0.78	$0.78	0.0%	$0.76	$0.77	2.0%	$0.74	$0.74	0.5%
Revenue	4,408	4,408	0.0%	19,171	19,171	0.0%	20,545	19,870	-3.3%	21,240	21,183	-0.3%
Expenses	3,719	3,718	0.0%	15,511	15,510	0.0%	16,449	16,044	-2.5%	16,619	16,554	-0.4%
EBITDA	**689**	**690**	**0.1%**	**3,660**	**3,661**	**0.0%**	**4,096**	**3,826**	**-6.6%**	**4,621**	**4,628**	**0.2%**
EBITDA Margin	15.6%	15.7%	0.1%	19.1%	19.1%	0.0%	19.9%	19.3%	-3.4%	21.8%	21.9%	0.4%
EPS ex-one time items ($)	0.33	0.33	0.5%	5.15	5.15	0.0%	4.58	4.02	-12.1%	5.96	5.97	0.2%
Consensus EBITDA		*693*			*3,668*			*4,085*			*4,585*	

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

Priced as of market close January 22, 2020

Chorus Aviation (TSX : CHR) — Outperform; $9.00 Target (unchg)

SUMMARY

Market price:	$8.26	52-Wk High:	$8.45
Yield (12-mth):	5.8%	52-Wk Low:	$6.90
Total est. return:	14.8%	Mkt Cap (MM)	$1,331
Shares O/S (MM)	161.1	Net Debt (MM)	$1,820
Float (MM):	$1,331	EV (MM):	$3,151

CONFERENCE CALL DETAILS

- Thursday February 13th, at 9:00AM
- 1-888-231-8191

STOCK SET-UP

Q4/19 Performance

Absolute	6%
vs. S&P TSX	242bps

Short Interest (Days to Cover)

Current	6.2

Analyst Sentiment

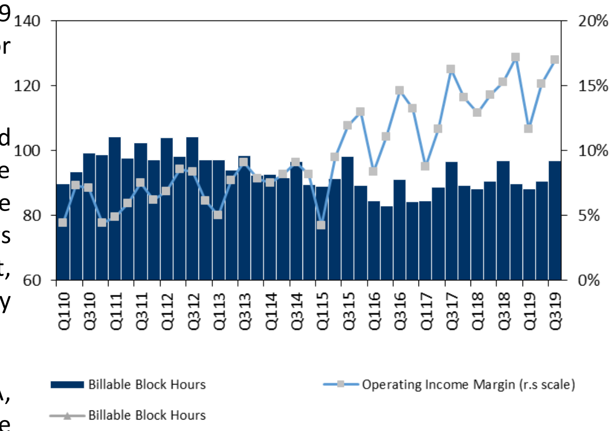
Outperform	88%
Sector Perform	13%
Underperform	0%

Q4/19 set-up: We have largely kept estimates unchanged ahead of Q4 results. We do not expect any surprises, as the company already provided an annual summary of new CAC leasing transactions for 2019 (see below). We note that we are in-line with consensus estimates for Q4 and full 2019.

CAC continues to grow. Earlier this month, CHR provided a year-end progress update on Chorus Aviation Capital (CAC), which detailed the lease of four previously unannounced aircraft late in 2019. Two of these aircraft are with Croatia Airlines, a new customer for CHR. This brings the CAC portfolio of leased regional aircraft up to 64 committed aircraft, valued at ~US $1.3B. During the call, we will be listening for any commentary regarding the health of the regional jet leasing market.

Maintain Outperform. The stability of cash flows under the CPA, especially with the extended deal, presents an attractive yield, while Chorus's progress into aircraft leasing provides a platform for diversification and growth. We believe the stock presents an attractive risk adjusted return at these levels.

OPERATING METRICS



	Q4/19E			2019E			2020E			2021E		
	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var
Revenue breakdown												
Controllable Revenue	184	184	0.0%	728	728	0.0%	756	756	0.0%	810	810	0.0%
Leasing under CPA	39	39	0.0%	133	133	0.0%	133	133	0.0%	150	150	0.0%
Margin compensation	16	16	0.0%	76	76	0.0%	76	76	0.0%	62	62	0.0%
Incentives	0.289	0.3	0.0%	2	2	0.0%	2	2	0.0%	2	2	0.0%
Pass through revenue	55	55	0.0%	213	213	0.0%	216	216	0.0%	219	219	0.0%
Passenger revenue	294	294	0.0%	1,151	1,151	0.0%	1,182	1,182	0.0%	1,242	1,242	0.0%
Regional Aircraft Leasing	317	317	0.0%	132	132	0.0%	197	197	0.0%	222	222	0.0%
Other - Charter, contract flying, MRO	34	34	0.0%	96	96	0.0%	98	98	0.0%	100	100	0.0%
Total Revenues	351	351	0.0%	1,379	1,379	0.0%	1,478	1,478	0.0%	1,564	1,564	0.0%
Total Expenses	293	293	0.0%	1,165	1,165	0.0%	1,209	1,209	0.0%	1,247	1,247	0.0%
Total Operating Income	59	59	0.0%	214	214	0.0%	270	270	0.0%	317	317	0.0%
Depreciation and Amortization	34	34	0.0%	136	136	0.0%	150	150	0.0%	158	158	0.0%
EBITDA	93	93	0.0%	352	352	0.0%	420	420	0.0%	475	475	0.0%
Consensus EBITDA		*$93*			*$349*			*$427*			*$479*	

Source: Bloomberg, RBC Capital Markets estimates, Company reports

Priced as of market close January 22, 2020

Valuation

Air Canada

On a 4.0x EV/EBITDA applied to our 2021 estimates, we derive our price target of $59. Our discount to the peer legacy group average is 1.1x. Our base case reflects the following assumptions: (1) rising yields due to the recent focus on launching services aimed at the premium traveler, such as the Signature service; (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 rating.

Risks to our target include 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 $9.00 price target on CHR shares is derived from an EV/EBITDA multiple approach. We are applying a 6.0x EBITDA multiple to our 2021E EBITDA at $475MM, which is a premium to the regional jet peers owing to the anticipated growth and diversification into regional aircraft leasing. This generates our $9.00 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.

Appendix 1: Airline Comps

	Symbol		22-Jan-20 Price	EV/EBITDA 2019E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/Sales 2019E	EV/Sales 2020E	EV/Sales 2021E	EBITDA Margin 2019E	EBITDA Margin 2020E	EBITDA Margin 2021E	Net Debt to EBITDA	EV (MM)
Discount Airlines														
Southwest	LUV-US	US$	$53.48	6.7x	6.3x	5.9x	1.3x	1.2x	1.1x	19%	19%	19%	0.1x	28,510
JetBlue	JBLU-US	US$	$19.80	5.4x	4.7x	4.3x	0.9x	0.8x	0.8x	16%	18%	18%	1.1x	7,229
Discount Average				**6.0x**	**5.5x**	**5.1x**	**1.1x**	**1.0x**	**1.0x**	**18%**	**19%**	**19%**	**0.6x**	
Mainline Airlines														
Air Canada	AC-CA	C$	$48.68	4.1x	3.7x	3.3x	0.8x	0.7x	0.7x	19%	20%	22%	0.6x	15,095
Delta Air Lines	DAL-US	US$	$59.64	5.6x	5.8x	5.5x	1.1x	1.1x	1.0x	20%	19%	19%	1.5x	52,945
United Continental	UAL-US	US$	$83.34	5.4x	5.2x	4.9x	0.8x	0.8x	0.8x	16%	15%	16%	2.3x	36,595
American Airlines	AAL-US	US$	$27.32	7.2x	7.0x	6.6x	0.9x	0.9x	0.8x	13%	12%	13%	5.1x	41,082
Mainline Average				**5.6x**	**5.4x**	**5.1x**	**0.9x**	**0.9x**	**0.8x**	**17%**	**17%**	**17%**	**3.0x**	
Regional Airlines														
Chorus Aviation	CHR-CA	C$	$8.26	6.0x	7.4x	6.2x	1.8x	1.9x	1.8x	30%	25%	28%	2.9x	2,601
SkyWest Inc.	SKYW-US	US$	$64.14	8.4x	8.4x	8.4x	2.0x	2.0x	1.9x	24%	23%	23%	3.9x	5,989
Regional Average				**7.2x**	**7.9x**	**7.3x**	**1.9x**	**1.9x**	**1.8x**	**27%**	**24%**	**26%**	**3.4x**	
Airline Average				**5.4x**	**5.4x**	**5.0x**	**1.1x**	**1.0x**	**1.0x**	**17%**	**17%**	**18%**	**1.9x**	

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada and Chorus Aviation. Priced at market close on January 22, 2020

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

FY Dec 31	2017A	2018	Q1/19	Q2/19	Q3/19	Q4/19E	2019E	Q1/20E	Q2/20E	Q3/20E	Q4/20E	2020E	Q1/21E	Q2/21E	Q3/21E	Q4/21E	2021E
Traffic / RPM (MMs)	85,137	92,352	21,293	23,463	27,954	21,417	94,127	21,506	23,698	27,954	21,631	94,789	22,581	24,883	29,352	22,713	99,528
% change	11.3%	8.5%	4.2%	3.6%	-1.8%	3.0%	1.9%	1.0%	1.0%	0.0%	1.0%	0.7%	5.0%	5.0%	5.0%	5.0%	5.0%
Capacity / ASM (MMs)	103,492	110,862	26,016	27,910	32,457	26,362	112,744	26,276	28,189	32,457	26,625	113,547	27,590	29,598	34,080	27,957	119,225
% change	11.6%	7.1%	4.6%	2.3%	-2.1%	3.0%	1.7%	1.0%	1.0%	0.0%	1.0%	0.7%	5.0%	5.0%	5.0%	5.0%	5.0%
Load Factor (%)	82.3%	83.3%	81.8%	84.1%	86.1%	81.2%	83.5%	81.8%	84.1%	86.1%	81.2%	83.5%	81.8%	84.1%	86.1%	81.2%	83.5%
change (% pts)	-0.2%	1.0%	-0.4%	1.0%	0.2%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield ($)	0.170	0.175	0.179	0.185	0.185	0.185	0.184	0.185	0.191	0.191	0.191	0.189	0.188	0.195	0.194	0.195	0.193
% change	0.8%	2.4%	5.0%	6.8%	4.8%	4.5%	5.3%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%	2.0%	2.0%	2.0%	2.0%
RASM (Rev per unit of capacity, cents)	14.1	14.6	14.7	15.5	15.9	15.1	15.3	15.1	16.0	16.4	15.5	15.8	15.4	16.4	16.7	15.8	16.1
CASM (Costs per unit of capacity, cents)	14.3	14.9	16.6	15.5	14.2	15.9	15.5	17.2	15.7	14.9	16.1	15.9	17.0	15.5	14.6	16.0	15.7
Fuel Cost/ASM (cents)	3.2	4.0	3.8	4.0	3.4	3.9	3.8	4.0	3.9	3.9	3.9	3.9	3.8	3.7	3.7	3.8	3.7
CASM (excl. fuel) (cents)	11.1	10.9	12.8	11.5	10.8	12.0	11.7	13.2	11.7	11.1	12.2	12.0	13.2	11.7	10.9	12.2	11.9
Total Revenues	**16,252**	**18,065**	**4,453**	**4,757**	**5,553**	**4,408**	**19,171**	**4,621**	**4,948**	**5,723**	**4,577**	**19,870**	**4,916**	**5,277**	**6,110**	**4,879**	**21,183**
% change	10.7%	11.2%	9.4%	9.8%	2.5%	3.8%	6.1%	3.8%	4.0%	3.1%	3.8%	3.6%	6.4%	6.7%	6.7%	6.6%	6.6%
Wages, salaries and benefits	2671	2873	799	781	788	798	3166	839	821	788	838	3286	882	862	828	881	3453
% Sales	16.4%	15.9%	17.9%	16.4%	14.2%	18.1%	16.5%	18.2%	16.6%	13.8%	18.3%	16.5%	17.9%	16.3%	13.6%	18.1%	16.3%
Aircraft Fuel - total	3339	4457	997	1117	1093	1031	4238	1041	1106	1251	1027	4425	1045	1108	1260	1054	4467
% Sales	20.5%	24.7%	22.4%	23.5%	19.7%	23.4%	22.1%	22.5%	22.4%	21.9%	22.4%	22.3%	21.3%	21.0%	20.6%	21.6%	21.1%
Sales and distribution costs	770	807	213	219	248	198	878	215	206	248	200	869	226	216	260	210	912
% Sales	4.7%	4.5%	4.8%	4.6%	4.5%	4.5%	4.6%	4.7%	4.2%	4.3%	4.4%	4.4%	4.6%	4.1%	4.3%	4.3%	4.3%
Food, beverages, supplies	383	433	103	112	125	111	451	104	113	125	112	454	109	119	131	117	477
% Sales	2.4%	2.4%	2.3%	2.4%	2.3%	2.5%	2.4%	2.3%	2.3%	2.2%	2.4%	2.3%	2.2%	2.3%	2.1%	2.4%	2.3%
Aircraft maintenance	938	903	245	255	254	260	1014	257	268	254	273	1052	265	276	262	281	1084
% Sales	5.8%	5.0%	5.5%	5.4%	4.6%	5.9%	5.3%	5.6%	5.4%	4.4%	6.0%	5.3%	5.4%	5.2%	4.3%	5.8%	5.1%
Airport and navigation fees	905	964	228	248	284	235	995	230	250	284	237	1002	242	263	298	249	1052
% Sales	5.6%	5.3%	5.1%	5.2%	5.1%	5.3%	5.2%	5.0%	5.1%	5.0%	5.2%	5.0%	4.9%	5.0%	4.9%	5.1%	5.0%
Communications and information technology	254	294	101	91	96	87	375	102	92	96	88	378	107	97	101	92	397
% Sales	1.6%	1.6%	2.3%	1.9%	1.7%	2.0%	2.0%	2.2%	1.9%	1.7%	1.9%	1.9%	2.2%	1.8%	1.6%	1.9%	1.9%
Other	3526	3519	890	902	1107	873	3772	958	938	1138	906	3941	1004	986	1115	951	4056
% Sales	21.7%	19.5%	20.0%	19.0%	19.9%	19.8%	19.7%	20.7%	19.0%	19.9%	19.8%	19.8%	20.4%	18.7%	18.3%	19.5%	19.1%
Regional airline expense (ex fuel and DAR)	2137	2031	478	478	632	463	2051	496	497	651	481	2125	513	515	596	497	2121
% Sales	13.1%	11.2%	10.7%	10.0%	11.4%	10.5%	10.7%	10.7%	10.0%	11.4%	10.5%	10.7%	10.4%	9.8%	9.8%	10.2%	10.0%
Total Operating Costs	**12,786**	**14,250**	**3,576**	**3,725**	**3,995**	**3,592**	**14,888**	**3,748**	**3,794**	**4,184**	**3,681**	**15,406**	**3,880**	**3,926**	**4,255**	**3,836**	**15,897**
EBITDA	**2,928**	**3,213**	**583**	**916**	**1,472**	**690**	**3,661**	**571**	**1,035**	**1,453**	**766**	**3,826**	**724**	**1,229**	**1,766**	**910**	**4,628**
% of sales	18.0%	17.8%	13.1%	19.3%	26.5%	15.7%	19.1%	12.4%	20.9%	25.4%	16.7%	19.3%	14.7%	23.3%	28.9%	18.6%	21.9%
Depreciation, amortization and impairment (Mainline + regional)	984	1,717	456	494	516	476	1,942	468	501	580	464	2,013	498	535	619	494	2,146
EBIT (Excluding Special Charges)	**1,371**	**1,496**	**127**	**422**	**956**	**214**	**1,719**	**103**	**533**	**874**	**303**	**1,813**	**226**	**694**	**1,147**	**416**	**2,483**
% of sales	8.4%	8.3%	2.9%	8.9%	17.2%	4.9%	9.0%	2.2%	10.8%	15.3%	6.6%	9.1%	4.6%	13.2%	18.8%	8.5%	11.7%
Net Income	**1,127**	**547**	**345**	**343**	**613**	**90**	**1,391**	**11**	**324**	**578**	**172**	**1,086**	**109**	**452**	**788**	**263**	**1,613**
EPS (F.D) ($) (Exc. Special charges)	**$ 4.05**	**$ 1.99**	**$ 1.26**	**$ 1.26**	**$ 2.27**	**$ 0.33**	**$ 5.15**	**$ 0.04**	**$ 1.20**	**$ 2.14**	**$ 0.64**	**$ 4.02**	**$ 0.41**	**$ 1.67**	**$ 2.92**	**$ 0.97**	**$ 5.97**

Source: RBC CM estimates, Company reports

Chorus Aviation (TSX: CHR)

FY Dec 31	2017A	2018	Q1/19	Q2/19	Q3/19	Q4/19E	2019E	Q1/20E	Q2/20E	Q3/20E	Q4/20E	2020E	Q1/21E	Q2/21E	Q3/21E	Q4/21E	2021E
Chorus Aviaition Income Statement ($MM)																	
Revenue	**1,352**	**1,451**	**344**	**333**	**351**	**352**	**1,379**	**385**	**357**	**362**	**374**	**1,478**	**410**	**383**	**378**	**393**	**1,564**
% change		**7.3%**	**-1.1%**	**-12.1%**	**-4.2%**	**-2.0%**	**-4.9%**	**12.0%**	**7.4%**	**3.1%**	**6.3%**	**7.2%**	**6.3%**	**7.3%**	**4.3%**	**5.3%**	**5.8%**
Salaries, wages and benefits	445	443	128	115	115	112	470	144	123	117	118	502	152	129	119	124	523
% Sales	33%	31%	37%	35%	33%	32%	34%	37%	34%	32%	31%	34%	37%	34%	31%	31%	33%
Depreciation and amortization	103	121	32	34	34	36	136	37	37	38	38	150	38	40	39	41	158
% Sales	8%	8%	9%	10%	10%	10%	10%	10%	10%	10%	10%	10%	9%	10%	10%	10%	10%
Aircraft maintenance	193	241	59	47	54	56	217	57	46	52	57	213	59	47	53	58	217
% Sales	14%	17%	17%	14%	15%	16%	16%	15%	13%	14%	15%	14%	14%	12%	14%	15%	14%
Airport and navigation fees	167	170	40	42	45	45	173	41	43	46	47	177	41	43	46	48	178
% Sales	12%	12%	12%	13%	13%	13%	13%	11%	12%	13%	13%	12%	10%	11%	12%	12%	11%
Terminal handling	28	22	6	5	5	5	21	6	5	5	5	21	6	5	5	5	21
% Sales	2%	1%	2%	1%	1%	2%	2%	2%	1%	1%	1%	1%	2%	1%	1%	1%	1%
Other	144	140	38	39	40	32	149	37	38	38	33	146	37	39	39	34	149
% Sales	11%	10%	11%	12%	11%	9%	11%	10%	11%	11%	9%	10%	9%	10%	10%	9%	10%
Total Operating Expenses	1,179	1,235	304	282	293	286	1,165	322	291	297	299	1,209	333	303	302	309	1,247
Operating Income	173	217	40	50	59	65	214	63	66	66	75	270	76	80	76	84	317
Adjusted EBITDA	276	**338**	**72**	**86**	**93**	**101**	**352**	**100**	**103**	**104**	**113**	**420**	**115**	**120**	**115**	**125**	**475**
% of sales	62.1%	76.2%	56.6%	74.7%	80.2%	90.1%	74.8%	69.1%	83.8%	88.6%	96.4%	83.7%	75.5%	93.5%	97.1%	101.1%	90.9%
Net Income	**181**	**33**	**30**	**44**	**17**	**36**	**128**	**35**	**35**	**35**	**44**	**149**	**45**	**46**	**43**	**50**	**185**
EPS (F.D) ($) (Excluding Special charges)	**$1.33**	**$0.47**	**$0.22**	**$0.24**	**$0.15**	**$0.23**	**$0.84**	**$0.22**	**$0.22**	**$0.22**	**$0.27**	**$0.93**	**$0.28**	**$0.29**	**$0.27**	**$0.31**	**$1.15**
CFPS (F.D) ($) (Excluding Special charges)	**$1.89**	**$2.00**	**$0.37**	**$0.42**	**$0.43**	**$0.45**	**$1.66**	**$0.45**	**$0.45**	**$0.45**	**$0.51**	**$1.86**	**$0.52**	**$0.53**	**$0.51**	**$0.57**	**$2.13**

Source: Company reports, RBC Capital Markets estimates

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

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Distribution of ratings
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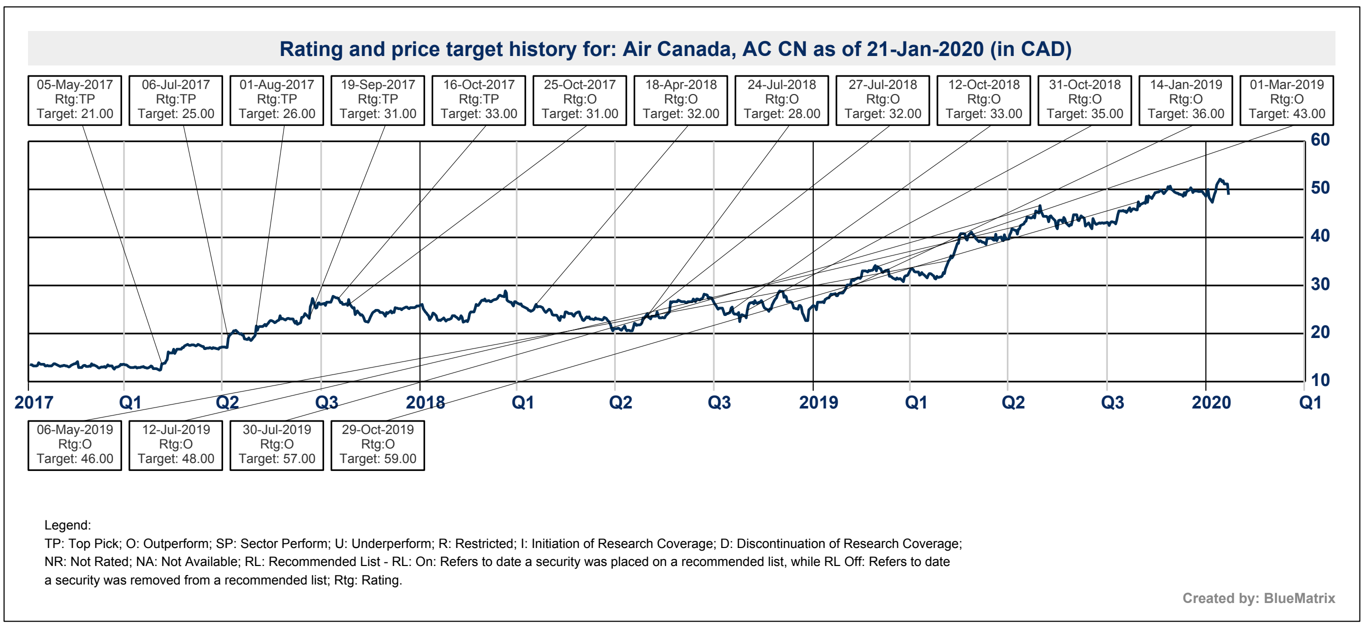
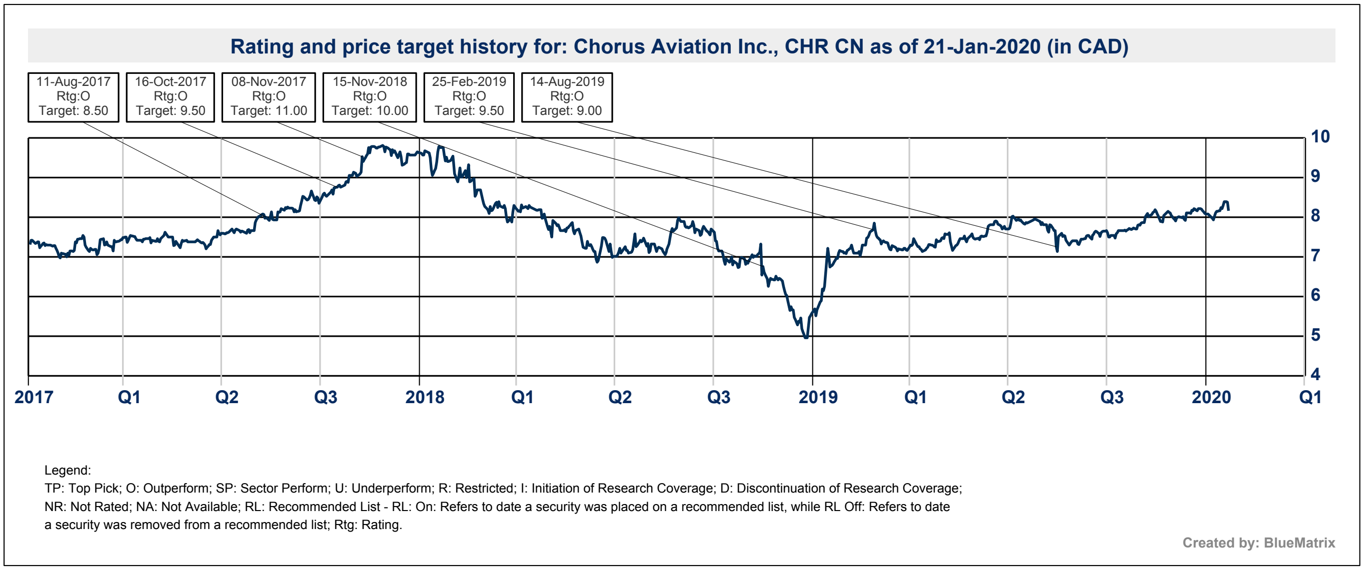
As of 31-Dec-2019

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Top Pick & Outperform]	**765**	**51.97**	**225**	**29.41**
HOLD [Sector Perform]	**625**	**42.46**	**127**	**20.32**
SELL [Underperform]	**82**	**5.57**	**5**	**6.10**





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Air Canada

Valuation

Our $59.00 target price is based on a 4.0x EV/EBITDA multiple applied to our 2021 estimates, which is a 1.1x discount to the group average multiple due to higher financial leverage (which we expect to decline). Our base case reflects the following assumptions: (1) stable yields with the changing business mix related to AC's strategic transformation partially offset by premium segment focus; (2) fleet expansion and strong demand to drive traffic growth; and (3) jet fuel prices to remain relatively range-bound at current levels. The implied return to our price target supports our Outperform rating.

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 $9.00 price target is derived from a sum-of-the-parts valuation. We value Chorus's core-CPA segment at a 6.0x EV/EBITDA multiple based on our 2021 estimates and we value the company's 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 $9.00 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.

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