



July 18, 2017

## RBC Flight Deck

### Canadian Airlines Q2 preview: Momentum building into peak summer season

Seeing a positive Q2/17 set-up. Q2/17 is setting up as another strong quarter for the Canadian airlines from an operating and earnings perspective. Traffic growth remains robust and we are seeing positive fare growth for both Air Canada and WestJet (as per the RBC Fare Survey). Adding to the positive operating backdrop, the Canadian airlines are enjoying a tailwind from lower jet fuel prices and a stronger CAD as they head into the important summer season and peak third quarter. We have a full recap in this report with all of our estimate changes. However, we highlight below our key Q2/17 expectations.

- AC: Maintaining Top Pick and \$25 price target.** We had previously updated our estimates following Air Canada's positive pre-release on July 6. As such, we are not making any changes to our estimates and our Q2/17 EBITDAR estimate stands at \$570MM (vs. consensus at \$550MM). And while the strong second quarter has likely been priced in, we believe the AC shares remain materially undervalued with plenty of near-term catalysts to drive valuations higher.
- WJA: Maintaining Sector Perform; taking target to \$25 (from \$23).** WestJet continues to post solid traffic trends and our RBC Fare Survey is seeing positive fare growth again in the second quarter. Combined with lower jet fuel prices and a stronger CAD, we have upped our Q2/17 EBITDAR to \$192MM (from \$170MM), with consensus currently at \$194MM. We believe the focus of the call will be centered around management's international expansion and ULCC plans, which we see continuing to weigh on the shares. We also upped our full year estimates on the back of lower jet fuel prices, which takes our price target to \$25 (from \$23).
- CHR: Maintaining Outperform and \$8 price target.** On a quarterly perspective, we do not see much in the way of EBITDAR variability. For the quarter, we are looking for EBITDAR of \$69MM, versus consensus of \$66MM. The focus will clearly be around the company's planned regional aircraft leasing subsidiary, Chorus Aviation Capital, announced in late December, and the \$200MM investment secured from Fairfax Financial Holdings.

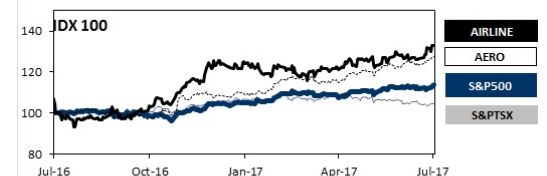
Revisions details are on pages 4–6; updated models are on pages 14–16.

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INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTSX	0.0	(0.7)	4.5	Δ
S&P 500	0.9	9.8	13.7	Δ
AMEX Airline	4.3	9.1	33.1	Δ
AMEX Aerospace	3.5	18.8	27.8	Δ



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	3.6	(18.2)	(8.7)	Δ
Jet Fuel	11.6	(7.9)	11.4	Δ
CAD/USD	(4.5)	(5.9)	(1.9)	▼

AEROSPACE				
Bombardier	(2.1)	9.2	14.5	▼
Boeing	8.4	33.9	58.5	Δ
EADS	(0.8)	18.7	39.7	▼
Embraer	1.1	0.6	(12.1)	Δ
General Dynamics	(0.1)	16.5	41.1	▼
Textron	4.7	2.2	28.7	Δ
United Technologies	2.8	12.6	17.4	Δ

N.A. MAINLINE				
Air Canada	20.7	50.8	114.5	Δ
AMR	9.8	16.1	51.1	Δ
Delta	6.2	12.1	34.5	Δ
United	3.0	9.6	66.9	Δ

N.A. REGIONAL				
Alaska	3.9	4.4	42.8	Δ
Allegiant	(2.4)	(14.9)	(5.3)	▼
Chorus Aviation	4.9	6.8	26.1	Δ
JetBlue	0.3	4.5	26.2	Δ
SkyWest	(2.0)	0.3	29.0	▼
Southwest	4.0	24.3	43.5	Δ
WestJet	14.0	11.9	12.8	Δ

INTL. AIRLINES				
Lufthansa	10.9	70.3	81.8	Δ
Air France/KLM	19.3	158.1	122.4	Δ
BA/Iberia	3.6	42.1	47.1	Δ
Cathay Pacific	(1.8)	(26.0)	(25.0)	▼
Air China	(0.7)	51.1	26.8	▼
China Eastern	3.6	30.4	5.5	Δ
China Southern	(1.9)	53.1	25.9	▼
Singapore Airlines	1.5	4.3	(9.5)	Δ
Qantas	0.4	63.4	77.2	Δ

Source: Bloomberg



## Canadian Airlines Q2/17 preview

### Strong dynamics heading into important summer season

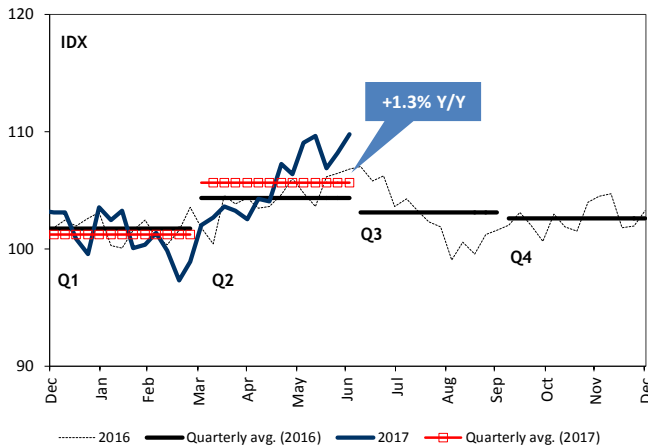
Q2/17 is setting up as another strong quarter for the Canadian airlines from an operating, and earnings perspective. Traffic growth remains robust and we continue to see firming pricing trends as we track along 2017. Adding to the positive operating backdrop, the Canadian airlines are enjoying a tailwind from lower jet fuel prices and a stronger CAD as they head into the important summer season and peak third quarter. For the quarter in hand, we see a positive set-up in Q2/17, with Air Canada our preferred name in the sector owing to the carriers significant cost transformation and what we see as an inflection in FCF over the next five years.

### Fare sale activity slows in the first quarter

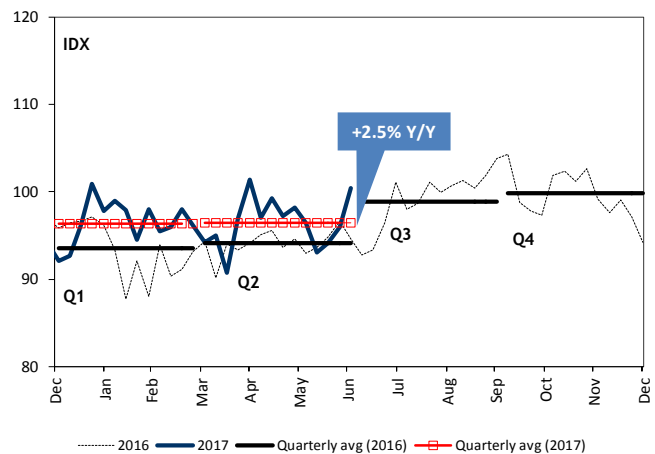
As tracked by the RBC Fare Survey, the Canadian airlines continued to tighten fare sale activity, which has resulted in positive Y/Y fare growth for the second quarter for both Air Canada and WestJet. For Air Canada, the RBC Fare Survey picked up positive fare growth of +1.3% Y/Y. After adjusting down by 250bp for mix, it implies a yield decline of -1.2% Y/Y (in line with our current estimate). For the quarter, the RBC Fare Survey picked up positive fare growth of +2.5% Y/Y for WestJet. After adjusting down by 50bp to account for mix, it implies a positive yield of +2% Y/Y (vs. our prior +3% estimate).

Exhibit 1: Fares continue to trend higher after deep discounting early in the first half of 2016

RBC Fare Tracker – Air Canada



RBC Fare Tracker – WestJet



Source: Air Canada, WestJet, RBC Capital Markets estimates



## Air Canada (TSX: AC)

### SUMMARY

Market price:	\$20.08	52-Wk High:	\$20.93
Yield (12-mth):	0.0%	52-Wk Low:	\$8.66
Total est. return:	5%	Mkt Cap (MM):	\$5,602
Shares O/S (MM):	279.0	Net Debt (MM):	\$6,702
Float (MM):	\$5,602	EV (MM):	\$12,304

### CONFERENCE CALL DETAILS

- Tuesday, August 1<sup>st</sup> (Time TBD)

**Q2/17 set-up.** We had previously updated our estimates following Air Canada's positive pre-release on July 6. As such, we are not making any changes to our estimates and our Q2/17 EBITDAR estimate stands at \$570MM (vs. consensus at \$550MM). And while the strong second quarter has likely been priced in, we believe the AC shares remain materially undervalued with plenty of near-term catalysts to drive valuations higher. We will be looking for colour and tone around the forward booking curve as the carrier enters the seasonally important summer season and peak Q3/17 earnings as a key focus on the conference call.

**Maintain Top Pick.** AC today is by far the most interesting investment opportunity in our coverage universe, in our view. Moreover, we see free cash flow set to ramp significantly, once the fleet renewal is complete - and we expect this to be well articulated at the Investor Day around mid-year. We see free cash expansion leading to debt reduction and increased shareholder returns through buyback and eventual dividend as a key catalyst for the stock. Maintain Top Pick.

## Top Pick, Speculative Risk; \$25 Target

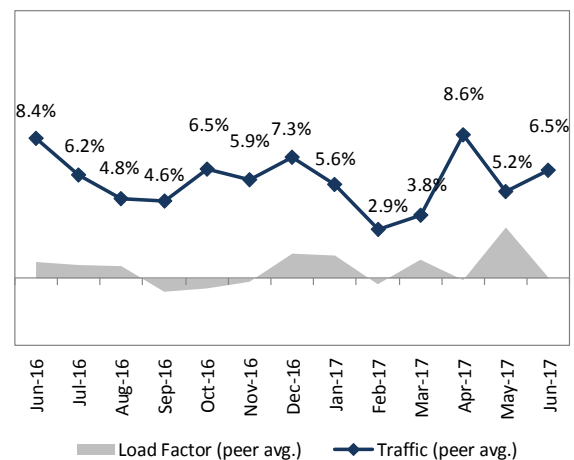
### STOCK SET-UP

<i>3-Month Performance (as of July 14th)</i>	
Absolute	54.8%
vs. S&P/TSX	5810 bps

<i>Short Interest (Days to Cover)</i>	
Current	8.2
3-Month Average	8.1

<i>Analyst Sentiment</i>	
Outperform	59%
Sector Perform	29%
Underperform	12%

### TRAFFIC DATA



	Q2/17E	Y/Y	2017E	Y/Y	2018E	Y/Y
Traffic: RPMs (% chg)	14.0%	466bp	9.6%	-362bp	5.0%	-460bp
Capacity: ASMs (% chg)	13.0%	201bp	9.7%	-495bp	6.0%	-370bp
Load Factor (%pts)	83.2%	73bp	82.4%	-8bp	81.6%	-78bp
Yield (% chg)	-1.2%	569bp	-2.3%	409bp	1.0%	331bp
RASM (% chg)	-0.1%	813bp	-3.7%	401bp	-0.4%	325bp
Adj. CASM ex fuel+other (% chg)	-2.4%	-26bp	-3.2%	-21bp	-2.6%	65bp
Avg Jet Fuel Price: (\$/Ltr)	\$0.64	23.3%	\$0.61	13.0%	\$0.58	-4.3%
Revenue	3,809	10.2%	15,539	5.9%	16,345	5.2%
Expenses	3,240	13.6%	12,775	7.3%	13,039	2.1%
<b>EBITDAR</b>	<b>570</b>	<b>-5.8%</b>	<b>2,764</b>	<b>-0.2%</b>	<b>3,306</b>	<b>19.6%</b>
<i>Consensus EBITDAR</i>		550	2,715		2,994	

Source: Bloomberg, Thomson ONE, RBC Capital Markets estimates, Company reports

Priced as of market close July 14, 2017



Chorus Aviation (TSX : CHR)

Outperform; \$8.00 Target

SUMMARY

Market price:	\$7.68	52-Wk High:	\$7.77
Yield (12-mth):	6.3%	52-Wk Low:	\$5.75
Total est. return:	10%	Mkt Cap (MM)	\$964
Shares O/S (MM):	125.5	Net Debt (MM)	\$885
Float (MM):	\$964	EV (MM):	\$1,849

CONFERENCE CALL DETAILS

- Thursday, August 10<sup>th</sup> @ 9:30AM
- 1-888-231-8191

**Q2/17 set-up:** On a quarterly perspective, we do not see much in the way of EBITDAR variability. For the quarter, we are looking for EBITDA of \$69MM with consensus at \$66MM.

**Focus will be on new leasing subsidiary.** In early December, Chorus Aviation announced that it is set to establish a new regional aircraft-leasing subsidiary, Chorus Aviation Capital, and entered into an agreement with Fairfax Financial Holdings for an investment of \$200MM in Chorus through a private placement of 200,000 convertible debt units. Chorus took all four tranches of the \$200MM investment in the first quarter of 2017. We expect much of the conference call to be focused around the company's new initiative and the timing of placing the new investment, which we see as providing for another leg of capital appreciation in the CHR shares.

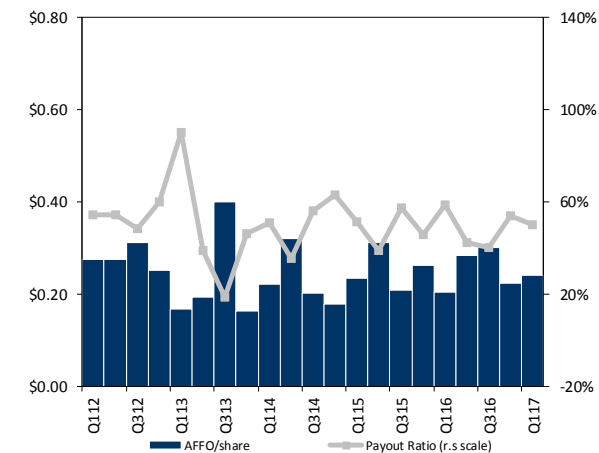
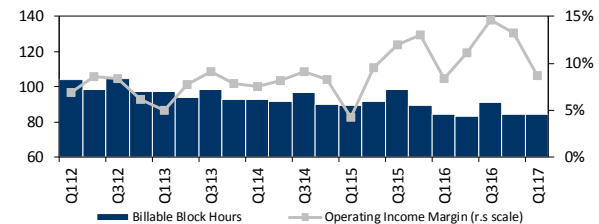
STOCK SET-UP

<b>3-Month Performance (as of July 14th)</b>	
Absolute vs. S&P/TSX	3.8% 702 bps

<b>Short Interest (Days to Cover)</b>	
Current	1.0
3-Month Average	0.7

<b>Analyst Sentiment</b>	
Outperform	88%
Sector Perform	12%
Underperform	0%

OPERATING METRICS



	Q2/17E	Y/Y	2017E	Y/Y	2018E	Y/Y
<b>Revenue breakdown</b>						
Flight revenue including charter	195	6.8%	760	1.5%	787	3.5%
Leasing under CPA	25	6.3%	101	2.2%	98	-2.8%
Margin compensation	28	0.6%	111	0.4%	111	0.0%
Incentives	4	-29.8%	17	-22.8%	16	-4.6%
Pass through revenue	64	-2.5%	276	1.9%	280	1.1%
Other revenue	13	106.3%	51	102.2%	51	0.0%
<b>Total Revenues</b>	<b>327</b>	<b>5.6%</b>	<b>1,316</b>	<b>3.1%</b>	<b>1,342</b>	<b>2.0%</b>
<b>Total Expenses</b>	<b>278</b>	<b>0.9%</b>	<b>1,145</b>	<b>1.7%</b>	<b>1,150</b>	<b>0.5%</b>
<b>EBITDAR</b>	<b>69</b>	<b>18.8%</b>	<b>259</b>	<b>4.5%</b>	<b>278</b>	<b>7.4%</b>
<i>Consensus EBITDAR</i>	<i>66</i>		<i>263</i>		<i>290</i>	

Source: Bloomberg, Thomson ONE, RBC Capital Markets estimates, Company reports

Priced as of market close July 14, 2017



WestJet (TSX: WJA)

SUMMARY

Market price:	\$24.93	52-Wk High:	\$25.88
Yield (12-mth):	2.2%	52-Wk Low:	\$20.52
Total est. return:	-6%	Mkt Cap (MM):	\$2,922
Shares O/S (MM):	117.2	Net Debt (MM):	\$934
Float (MM):	\$2,867	EV (MM):	\$3,856

CONFERENCE CALL DETAILS

- Tuesday, August 1<sup>st</sup> (Time TBD)

**Q2/17 set-up.** WestJet continues to post solid traffic trends and our RBC Fare Survey is seeing positive fare growth again in the second quarter. Combined with lower jet fuel prices and a stronger CAD, we have upped our Q2/17 EBITDAR to \$192MM (from \$170MM), with consensus currently at \$194MM. We believe the focus of the call will be centered around management's international expansion and ULCC plans.

**Taking target up to \$25 (from \$23).** In addition to our Q2/17 estimate updates, we are revising our full year estimates for 2017 and 2018 to account for our lower jet fuel price assumption. As such, our 2018 EBITDAR moves to \$1,031MM (from \$985MM), with consensus currently at \$1,073MM. This takes our price target up to \$25 per share (from \$23).

**Maintaining Sector Perform.** We expect WJA to report solid financial metrics as the company is benefiting from strong traffic trends. We are concerned that the carrier's international expansion will come with higher costs and lower yields. Additionally, with material exposure to softness in western Canada and unionization of the company's pilots, we continue to see better valuation upside in AC and CHR shares.

Sector Perform; \$25 Target (from \$23)

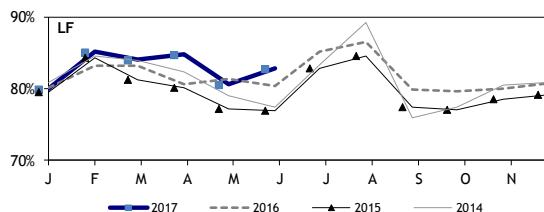
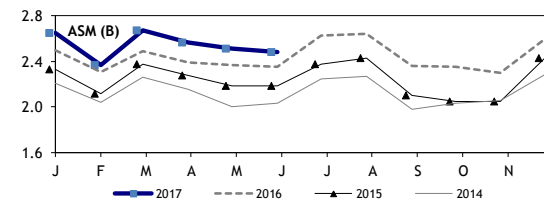
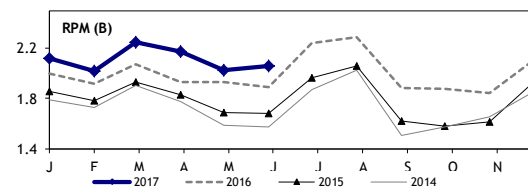
STOCK SET-UP

3-Month Performance (as of July 14th)	
Absolute	11.2%
vs. S&P/TSX	1442 bps

Short Interest (Days to Cover)	
Current	14.8
3-Month Average	10.2

Analyst Sentiment	
Outperform	12%
Sector Perform	71%
Underperform	18%

TRAFFIC DATA











	RBC CM Q2/17			RBC CM 2017E			RBC CM 2018E		
	Old	New	Var	Old	New	Var	Old	New	Var
Traffic: RPMs (% chg)	6.0%	8.9%	285bp	4.9%	5.6%	68bp	4.5%	4.5%	0bp
Capacity: ASMs (% chg)	6.0%	6.3%	31bp	5.1%	5.2%	8bp	5.0%	5.0%	0bp
Load Factor (%pts)	0.0%	2.0%	193bp	-0.2%	0.3%	47bp	-0.4%	-0.4%	0bp
Yield (% chg)	3.0%	2.0%	-100bp	2.5%	2.3%	-26bp	2.0%	2.0%	0bp
RASM (% chg)	3.0%	4.4%	144bp	2.3%	2.6%	33bp	1.5%	1.5%	0bp
Adj. CASM ex fuel+other items (% chg)	1.7%	1.5%	-24bp	3.5%	3.5%	-6bp	0.4%	0.4%	5bp
Avg Jet Fuel Price (\$C/Ltr)	0.65	0.64	-1.7%	0.64	0.63	-2.7%	0.62	0.60	-2.1%
Revenue	1,036	1,054	1.7%	4,435	4,453	0.4%	4,727	4,746	0.4%
Expenses	866	862	-0.5%	3,540	3,515	-0.7%	3,742	3,715	-0.7%
<b>EBITDAR</b>	<b>170</b>	<b>192</b>	<b>12.8%</b>	<b>895</b>	<b>937</b>	<b>4.8%</b>	<b>985</b>	<b>1,031</b>	<b>4.7%</b>
Consensus EBITDAR		194			972			1,073	

Source: Bloomberg, Thomson ONE, RBC Capital Markets estimates, Company reports

Priced as of market close July 14, 2017

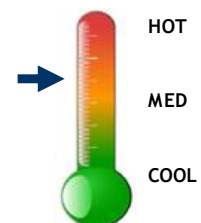
## The Bombardier New Order Map

We outline order campaigns in which we believe Bombardier Aerospace (BA) is participating. The bigger the heat, the bigger the potential impact on the BBD shares, in our view.

CUSTOMER	TYPE	SIZE / VALUE	TIMING / COMMENTS	HEAT
<b>Qatar Investment Authority</b>	<b>Commercial:</b> C-Series	100 potential (~\$8B)	QIA and Qatar Air plan to submit a joint application to set up a new Indian carrier according to Bloomberg. Indicated 100 planes needed for the new venture and interest in the C-Series.	
<b>Multiple airlines</b>	<b>Commercial:</b> C-Series	Potentially 50+ (~\$3.4B)	With eight airlines with C-series' order commitments (at 200+ aircraft), BBD could announce several conversions to firm orders.	
<b>Chinese Airlines</b>	<b>Commercial:</b> C-Series	+20 potential order size (+\$1.4B)	BBD flew in the CS300 to Air Show China in October 2016, which generated good interest. With two conditional orders, which includes CDB Leasing (five CS100s and ten CS300s) and Zhejiang Loong Airlines (LOI signed for 20 CS100s) we continue to look for these orders to convert, and potentially new ones in the region.	
<b>Latin American Airlines</b>	<b>Commercial:</b> C-Series	Uncertain	Bombardier is set to take the C-Series on a Latin American tour later this year. The plane is set to stop in every country from Mexico to Argentina – according to Bombardier executives.	
<b>JetBlue</b>	<b>Commercial:</b> C-Series	Uncertain	Following the Delta win, JetBlue has resumed talks with Bombardier. The C-Series may substitute E-190s for short-haul, high-frequency routes out of Boston.	
<b>AtlasJet</b>	<b>Commercial:</b> C-Series	LOI signed for 10 CS300 + 5 options	The LOI was signed November 2011. We expect this order to firm once in-flight data is compiled.	
<b>CityJet</b>	<b>Commercial:</b> C-Series	Uncertain	CityJet chose to take 15 Superjets over 12-year leases. A C-Series order is still possible, but timing has likely been pushed out.	
<b>Delta Air Lines</b>	<b>Regional:</b> CRJ900	Potentially 50+ (~\$2.3B)	Recent Union negotiations failed to secure scope-clause changes for 100-seat jets to be flown by regional airliners. Next opportunity will be in 2018.	

### OVERALL HEAT GAUGE

We are maintaining the heat at more elevated levels. With the C-Series now on revenue generating flights, and as performance and dispatch reliability numbers come in, we are seeing a pick-up in interest in the C-Series. While the Paris Air Show in June didn't generate any new orders, the plane generated good interest with several airline execs noting the impressive performance attributes of the aircraft.





## 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

#### Narrow-bodies

- **Paris Airshow—C-Series Interest from Qatar Air and Air Baltic.** Qatar Air CEO Akbar Al Baker reaffirmed the company's interest to purchase C-Series jets for its newly approved Indian airline, according to Fred Cromer, President of Bombardier's commercial aircraft. Air Baltic also expressed its interest to order more CS100 jets, after reporting positive fuel-burn targets on its prior order of 20 CS300 jets. Despite a lack of firm orders at the Paris Air Show, these statements bode positively for future C-Series development. (Source: Globe and Mail, June 19)
- **CAE-built C-Series flight simulator receives highest qualification grade from regulators.** Transport Canada, the U.S. Federal Aviation Authority, European Aviation Safety Agency, and the Ministry of Land, Infrastructure and Transport of Korea have qualified the first C-Series full flight simulator to Level D, the highest possible grade. This means that the simulator system permits pilots to complete their flight training before they fly the actual aircraft. Currently, five simulators are under development or in operation worldwide. This will support pilot training as Bombardier ramps up 2017 C-Series deliveries in the second half of the year. (Source: Bombardier, June 22)
- **U.S. Department of Commerce to consider preliminary countervailing duty.** On June 9, The U.S. International Trade Commission ruled that U.S. aircraft manufacturers may have been harmed by Bombardier's discounted sale of C-Series jets to Delta Airlines in 2016. This ruling permits the U.S. Department of Commerce to consider a preliminary countervailing duty (79.41%), followed by an antidumping duty (79.82%), as part of their ongoing investigation. (Sources: Flight Global, Globe and Mail, June 28)

#### Regional jets

- **Paris Airshow—59 new orders/commitments announced for Q400 Aircraft.** Bombardier's Q400 regional turboprop was well received at the Paris Air Show, taking orders/commitments from Philippine Airlines (seven purchase options exercised), CemAir (two aircraft in purchase intent), and SpiceJet (25 firm purchases, and 25 options). The total deal value of firm orders and purchase options is ~\$2B, given a 2017 Q400 average list price of US\$32.2MM. (Sources: Bombardier, June 23)
- **Potential new Embraer turboprop jet.** Embraer's Chief Executive of Commercial Aviation, John Slattery insisted the company will potentially develop an "E3" turboprop. The new proposed jet highlights Embraer's focus on expanding their E-series regional jets. The E2 series secured 30 new orders/commitments at the Paris Airshow in June from two undisclosed customers. (Source: Centre for Aviation, July 2)

#### Business jets

- **First Embraer Phenom 100 Delivery to U.K. Military Flying Training System program.** The first Phenom 100 jet was delivered for the U.K. MFTS program, which trains the U.K. armed forces on turboprop and light jet aircraft manufactured by Grob Aircraft, Raytheon, and Embraer. Under an agreement with Affinity Flight Services, four more Phenom 100 jets will be delivered to the U.K. MFTS program. Additional follow-on aircraft may be purchased through an option agreement. (Source: Airforce Technology, July 5)



## CAE

### Civil

- **Key highlights from the CAE's first 10-year Airline Pilot Demand Outlook:** At the Paris Air Show on June 20, CAE released its first Airline Pilot Demand Outlook – a publication consisting of CAE's analysis and forecasts for key drivers of the aviation training industry. The outlook is available for download [here](#). Highlights from the CAE outlook include:
  - **Pilot demand remains robust:** CAE estimates that approximately 20,000 new pilots entered into the airline profession in 2016. Approximately ~6,500 (up from 4,000 in 2012) were trained in airline-focused flight training academies; ~3,000 (down from 4,000 in 2012) were trained in universities and militaries, and the remaining ~10,500 (down from 11,000 in 2012) were trained in small regional flight schools.
  - **Increased regulation and emphasis on safety:** Training programs are becoming more regulated, and airlines are more actively involved in training from day one. Various regulatory bodies are working towards standardizing the pilot training process around the globe, and leverage the use of data to improve training outcomes.
  - **Fleet growth and pilot retirement continue to drive pilot training demand:** CAE estimates global active commercial fleet will grow by 12,000 aircrafts to roughly 37,000 by 2027, implying a 4% annual growth between the 2017-2027E forecast period, in-line with IATA forecasts of 4.2% annual growth in passenger trips per year. These estimates are supportive of our growth forecasts for CAE's civil segment – we conservatively project Civil revenues to reach ~\$1.68bn in F2019E and total revenues to reach ~\$3bn, representing a 2.5% and 3.5% CAGR from F2017 levels, respectively.
  - **"Industry will need to produce 70 pilots per day to meet global demand";** airlines increasing compensation to attract pilots: CAE forecasts that the industry will need 255,000 new pilots over the next 10 years, totaling 440,000 active pilots by 2027 – this translates to ~70 new pilots per day to meet the increased demand. In addition, 180,000 pilots will be transitioned into captains within the same time frame. In response, airlines are increasing compensation to attract experienced pilots; Middle Eastern and Asia-Pacific carriers offer, on average, a 10%-15% salary premium to North America counterparts. (CAE, Jun 21, 2017)
  - **L-3 signs contracts valued over US\$115MM:** L-3 CTS sold eight full flight simulators (FFS) year to date, and landed contracts delivering airline pilot training programs and pilot resources classroom devices totaling over US\$115MM. L-3 is contracted to deliver full flight simulators to Air France, Chengdu Airlines, Sichuan Airlines, Shenzhen Airlines, and All Nippon Airways, as well as Boeing 737 training contracts for airline customers in Europe, the Middle East and APAC regions. (CAT, Jun 17, 2017)

### Military

- **Navy, Congress increase reenlisting bonuses to address pilot shortage:** The US Navy announced its reenlisting bonus of \$75,000-\$150,000, distributed over five years, to incent pilots to stay in service. The bonuses are offered to all pilots with enlistments expiring in Fiscal 2018 and choose to extend service for five more years. The Navy and Air Force have seen declining pilot retention rates down from 68% in 2013 to only 55% by 2015; low retention rates could prove to be costly, as it is estimated that each F-22 fighter pilot could cost upwards of ~\$12.5 million to train. (Federal News Radio, Jul 10, 2017)



## The Landing Strip

### MAKS

**When:** July 16-20

**Where:** Moscow, Russia

**What:** The International Aviation and Space Salon MAKS holds one of the world's largest aviation forums. The main objective of MAKS is to demonstrate the achievements of Russian high tech and receptiveness of the domestic Russian market to joint projects with foreign partner.

**The Buzz:** MAKS provides a comprehensive insight into the priorities and achievements of the Russian aerospace industry. Some prototypes of aircrafts and combat systems as well as experimental units that for one reason or another cannot be shown abroad, are demonstrate exclusively at MAKS. Experts believe that Sukhoi could launch a stretched version of its SuperJet at this year's MAKS, which would take its seat capacity up from 100 and not the CS300 seating capacity towards 120+ seats.



## Valuation

### Air Canada

On a 4.2x EV/EBITDAR applied to our 2018 estimates, we derive our price target of \$25.00. Our 4.2x EBITDAR multiple remains in line to the peer legacy group average and lower end of the historical multiple range, taking into account Air Canada's high balance sheet leverage. 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.

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. 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

Our \$8.00 price target on CHR shares is derived from a EV/EBITDAR multiple approach, supported by our discounted cash flow valuation analysis. We are applying a 6.2x EBITDAR multiple to our 2018 EBITDAR estimate, which is a 100bp premium over the regional jet peers, owing to the anticipated growth and diversification into regional aircraft leasing. This provides us with our \$8.00 target and 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 \$25 price target is based on an EV/EBITDAR approach whereby we assign a 5x multiple to our 2018 estimate. Our target multiple is at a slight relative discount with recent LCC 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 Comparables

Symbol	17-Jul-17		EV/EBITDAR				EV/Sales				EBITDAR Margin				2018E	Net Debt to	
	Price		2015	2016	2017E	2018E	2015	2016	2017E	2018E	2015	2016	2017E	2018E	FCF yield	EBITDAR	
<b>Discount Airlines</b>																	
WestJet	WJA-CA	C\$	\$24.93	5.1x	5.3x	5.5x	5.0x	1.3x	1.2x	1.2x	1.1x	25%	24%	21%	22%	3.3%	1.8x
Southwest	LUV-US	US\$	\$62.14	7.4x	7.2x	7.1x	6.2x	2.0x	1.9x	1.9x	1.8x	27%	27%	26%	28%	7.1%	0.3x
JetBlue	JBLU-US	US\$	\$23.53	5.7x	5.0x	5.4x	5.0x	1.6x	1.5x	1.4x	1.3x	28%	31%	27%	26%	8.4%	1.1x
<b>Discount Average</b>				<b>6.0x</b>	<b>5.9x</b>	<b>6.1x</b>	<b>5.4x</b>	<b>1.6x</b>	<b>1.6x</b>	<b>1.5x</b>	<b>1.4x</b>	<b>27%</b>	<b>27%</b>	<b>25%</b>	<b>25%</b>	<b>6.2%</b>	<b>0.7x</b>
<b>Mainline Airlines</b>																	
Air Canada	AC-CA	C\$	\$20.08	5.0x	4.6x	4.6x	3.8x	0.9x	0.9x	0.8x	0.8x	18%	19%	18%	20%	10.1%	2.1x
Delta Air Lines	DAL-US	US\$	\$54.64	5.5x	5.3x	5.2x	5.0x	1.2x	1.2x	1.2x	1.1x	21%	22%	22%	23%	12.0%	0.8x
United Continental	UAL-US	US\$	\$79.78	4.8x	4.6x	5.0x	4.7x	1.0x	1.0x	1.0x	1.0x	21%	23%	20%	20%	10.9%	1.7x
American Airlines	AAL-US	US\$	\$53.87	5.3x	5.1x	5.7x	5.5x	1.2x	1.2x	1.1x	1.1x	22%	23%	20%	20%	11.2%	2.5x
<b>Mainline Average</b>				<b>5.1x</b>	<b>4.9x</b>	<b>5.1x</b>	<b>4.6x</b>	<b>1.1x</b>	<b>1.1x</b>	<b>1.0x</b>	<b>1.0x</b>	<b>21%</b>	<b>22%</b>	<b>20%</b>	<b>21%</b>	<b>11.0%</b>	<b>1.6x</b>
<b>Regional Airlines</b>																	
Chorus Aviation	CHR-CA	C\$	\$7.68	7.7x	7.4x	6.8x	6.3x	1.6x	1.9x	1.8x	1.8x	20%	25%	27%	28%	13.0%	4.0x
SkyWest Inc.	SKYW-US	US\$	\$37.90	5.7x	5.8x	5.3x	6.0x	2.0x	2.0x	2.0x	2.0x	36%	35%	38%	33%	16.8%	4.1x
<b>Regional Average</b>				<b>6.7x</b>	<b>6.6x</b>	<b>6.0x</b>	<b>6.2x</b>	<b>1.8x</b>	<b>1.9x</b>	<b>1.9x</b>	<b>1.9x</b>	<b>28%</b>	<b>30%</b>	<b>32%</b>	<b>31%</b>	<b>14.9%</b>	<b>4.1x</b>
<b>Airline Average</b>				<b>5.8x</b>	<b>5.6x</b>	<b>5.6x</b>	<b>5.3x</b>	<b>1.4x</b>	<b>1.4x</b>	<b>1.4x</b>	<b>1.3x</b>	<b>24%</b>	<b>25%</b>	<b>24%</b>	<b>25%</b>	<b>10.3%</b>	<b>2.0x</b>

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at the close on July 17, 2017



Appendix 2: Aerospace Comparables

Company	Exch: Ticker	17-Jul Price	CY EPS <sup>(1)</sup>				CY PER				CY EV/EBITDA <sup>(1)</sup>				Mkt Cap B	
			2015	2016	2017E	2018E	2015	2016	2017E	2018E	2015	2016	2017E	2018E		
<b>Aerospace</b>																
Boeing**	NYSE:BA	US\$	\$209.00	\$7.72	\$7.24	\$9.37	\$10.26	23.7x	25.3x	19.6x	17.9x	11.9x	14.6x	10.1x	9.5x	\$126.1
Embraer*	NYSE: ERJ	US\$	\$19.50	\$1.48	\$1.58	\$1.43	\$1.47	13.7x	12.8x	14.2x	13.8x	6.1x	5.5x	5.6x	5.4x	\$3.6
General Dynamics**	NYSE: GD	US\$	\$200.14	\$9.08	\$8.64	\$9.80	\$10.54	21.5x	22.6x	20.0x	18.6x	13.0x	14.5x	12.9x	12.2x	\$60.4
Textron	NYSE: TXT	US\$	\$49.52	\$2.50	\$2.62	\$2.52	\$2.99	19.2x	18.4x	19.0x	16.1x	10.3x	10.3x	10.4x	9.1x	\$13.3
<b>Average</b>								<b>19.5x</b>	<b>19.8x</b>	<b>18.2x</b>	<b>16.6x</b>	<b>10.3x</b>	<b>11.2x</b>	<b>9.7x</b>	<b>9.0x</b>	
<b>Transportation &amp; Conglomerates</b>																
Siemens	XE: SIE	EUR	119.00	6.17	6.93	7.96	8.44	19.3x	17.2x	15.0x	14.1x	14.1x	12.5x	10.9x	10.2x	\$101.2
General Electric	NYSE: GE	US\$	\$26.82	\$1.31	\$1.49	\$1.62	\$1.81	20.5x	18.0x	16.6x	14.8x	16.1x	17.8x	15.8x	14.7x	\$233.6
United Technologies	NYSE: UTX	US\$	\$123.11	\$6.30	\$6.61	\$6.58	\$7.06	19.5x	18.6x	18.7x	17.4x	10.4x	10.9x	10.8x	10.5x	\$98.6
<b>Average</b>								<b>19.8x</b>	<b>17.9x</b>	<b>16.7x</b>	<b>15.5x</b>	<b>13.6x</b>	<b>13.7x</b>	<b>12.5x</b>	<b>11.8x</b>	
Aerospace Multiples								19.5x	19.8x	18.2x	16.6x	10.3x	11.2x	9.7x	9.0x	
Transportation Multiples (ex. GE, UTX)								19.3x	17.2x	15.0x	14.1x	14.1x	12.5x	10.9x	10.2x	
<b>Average</b>								<b>19.4x</b>	<b>18.5x</b>	<b>16.6x</b>	<b>15.3x</b>	<b>12.2x</b>	<b>11.9x</b>	<b>10.3x</b>	<b>9.6x</b>	
<b>Bombardier</b>	<b>TSX: BBD.B</b>	<b>C\$</b>	<b>\$2.36</b>	<b>\$0.16</b>	<b>-\$0.15</b>	<b>-\$0.03</b>	<b>\$0.11</b>	<b>11.5x</b>	<b>nmf</b>	<b>nmf</b>	<b>17.1x</b>	<b>10.5x</b>	<b>13.0x</b>	<b>11.0x</b>	<b>7.3x</b>	<b>\$5.3</b>

\* Covered by RBC Dominion Securities, Industrials analyst Derek Spronck

\*\* Covered by RBC Capital Markets, LLC Aerospace and Defense analyst Matthew McConnell

(1) Peer group consensus EPS and EBITDA estimates sourced from FactSet

Sources: Company reports, FactSet, and RBC Capital Markets estimates. Priced at the close on July 17, 2017



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

FY Dec 31	2015	2016	Q1/17	Q2/17E	Q3/17E	Q4/17E	2017E	Q1/18E	Q2/18E	Q3/18E	Q4/18E	2018E	2019E	2020E
Traffic / RPM (MMs)	67,545	76,481	18,341	20,997	25,788	18,702	83,827	19,258	22,046	27,077	19,637	88,018	89,778	91,574
% change	9.6%	13.2%	14.0%	14.0%	6.0%	6.0%	9.6%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%	2.0%
Capacity / ASM (MMs)	80,871	92,726	22,894	25,249	30,165	23,416	101,725	24,268	26,764	31,975	24,821	107,828	111,063	114,395
% change	9.4%	14.7%	15.4%	13.0%	6.0%	6.0%	9.7%	6.0%	6.0%	6.0%	6.0%	6.0%	3.0%	3.0%
Load Factor (%)	83.5%	82.5%	80.1%	83.2%	85.5%	79.9%	82.4%	79.4%	82.4%	84.7%	79.1%	81.6%	80.8%	80.1%
change (% pts)	0.1%	-1.0%	-1.0%	0.7%	0.0%	0.0%	-0.1%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%
Yield (\$)	0.181	0.169	0.165	0.165	0.163	0.167	0.165	0.167	0.167	0.164	0.169	0.167	0.169	0.172
% change	-4.6%	-6.4%	-5.1%	-1.2%	-2.0%	-1.0%	-2.3%	1.0%	1.0%	-2.0%	1.0%	1.0%	1.5%	1.5%
RASM (Rev per unit of capacity, cents)	15.4	14.2	13.2	13.8	13.9	13.4	13.7	13.2	13.8	13.9	13.4	13.6	13.7	13.7
CASM (excl. fuel) (cents)	11.8	11.5	12.9	11.2	9.4	11.5	11.1	12.3	11.0	9.3	11.1	10.8	10.8	10.7
<b>Total Revenues</b>	<b>13,868</b>	<b>14,677</b>	<b>3,642</b>	<b>3,809</b>	<b>4,555</b>	<b>3,532</b>	<b>15,539</b>	<b>3,773</b>	<b>4,026</b>	<b>4,816</b>	<b>3,729</b>	<b>16,345</b>	<b>16,897</b>	<b>17,467</b>
Wages, salaries and benefits	2324	2510	644	629	678	652	2603	663	648	698	672	2682	2736	2860
% Sales	16.8%	17.1%	17.7%	16.5%	14.9%	18.5%	16.8%	17.6%	16.1%	14.5%	18.0%	16.4%	16.2%	16.4%
Aircraft Fuel - total	2823	2606	754	756	868	698	3076	720	760	897	720	3098	3143	3275
% Sales	20.4%	17.8%	20.7%	19.8%	19.1%	19.8%	19.8%	19.1%	18.9%	18.6%	19.3%	19.0%	18.6%	18.7%
Sales and distribution costs	608	703	205	215	211	164	795	212	222	217	169	821	845	871
% Sales	4.4%	4.8%	5.6%	5.6%	4.6%	4.6%	5.1%	5.6%	5.5%	4.5%	4.5%	5.0%	5.0%	5.0%
Food, beverages, supplies	314	349	85	97	90	80	353	88	100	93	82	363	374	385
% Sales	2.3%	2.4%	2.3%	2.6%	2.0%	2.3%	2.3%	2.3%	2.5%	1.9%	2.2%	2.2%	2.2%	2.2%
Aircraft maintenance	773	880	228	265	250	247	990	235	273	258	254	1020	1050	1082
% Sales	5.6%	6.0%	6.3%	7.0%	5.5%	7.0%	6.4%	6.2%	6.8%	5.3%	6.8%	6.2%	6.2%	6.2%
Airport and navigation fees	802	859	210	232	262	215	920	223	246	278	228	975	1005	1035
% Sales	5.8%	5.9%	5.8%	6.1%	5.8%	6.1%	5.9%	5.9%	6.1%	5.8%	6.1%	6.0%	5.9%	5.9%
Communications and information technol	211	242	71	67	50	57	245	68	63	44	53	227	234	229
% Sales	1.5%	1.6%	1.9%	1.8%	1.1%	1.6%	1.6%	1.8%	1.6%	0.9%	1.4%	1.4%	1.4%	1.3%
Other	3056	3271	847	891	793	742	3273	830	866	819	802	3316	3428	3416
% Sales	22.0%	22.3%	23.3%	23.4%	17.4%	21.0%	21.1%	22.0%	21.5%	17.0%	21.5%	20.3%	20.3%	19.6%
Regional airline expense (ex fuel and DA	1890	2027	521	530	497	494	2042	528	544	506	503	2081	2151	2096
% Sales	13.6%	13.8%	14.3%	13.9%	10.9%	14.0%	13.1%	14.0%	13.5%	10.5%	13.5%	12.7%	12.7%	12.0%
<b>Total Operating Costs</b>	<b>10,911</b>	<b>11,420</b>	<b>3,044</b>	<b>3,152</b>	<b>3,203</b>	<b>2,854</b>	<b>12,253</b>	<b>3,039</b>	<b>3,179</b>	<b>3,304</b>	<b>2,980</b>	<b>12,501</b>	<b>12,814</b>	<b>13,152</b>
<b>EBITDAR</b>	<b>2,542</b>	<b>2,768</b>	<b>342</b>	<b>570</b>	<b>1,278</b>	<b>574</b>	<b>2,764</b>	<b>471</b>	<b>757</b>	<b>1,436</b>	<b>642</b>	<b>3,306</b>	<b>3,529</b>	<b>3,744</b>
% of sales	18.3%	18.9%	9.4%	15.0%	28.1%	16.2%	17.8%	12.5%	18.8%	29.8%	17.2%	20.2%	20.9%	21.4%
<b>EPS (F.D) (\$) (Exc. Special charges)</b>	<b>\$ 4.18</b>	<b>\$ 4.11</b>	<b>\$ (0.32)</b>	<b>\$ 0.54</b>	<b>\$ 2.84</b>	<b>\$ 0.24</b>	<b>\$ 3.30</b>	<b>\$ 0.02</b>	<b>\$ 0.96</b>	<b>\$ 3.14</b>	<b>\$ 0.67</b>	<b>\$ 4.79</b>	<b>\$ 5.44</b>	<b>\$ 6.07</b>

Source: RBC CM estimates, Company reports



Chorus Aviation (TSX: CHR.B)

FY Dec 31	2015	Q1/16	Q2/16	Q3/16	Q4/16	2016	Q1/17	Q2/17E	Q3/17E	Q4/17E	2017E	Q1/18E	Q2/18E	Q3/18E	Q4/18E	2018E
Billable Block Hours ('000s)	368,237	84,517	82,964	91,067	84,362	342,910	84,515	87,112	95,620	88,580	355,828	85,360	87,983	96,577	89,466	359,386
% change	-0.7%	-5.1%	-9.4%	-7.3%	-5.6%	-6.9%	0.0%	5.0%	5.0%	5.0%	3.8%	1.0%	1.0%	1.0%	1.0%	1.0%
Available Seat Miles ('000s)	5,451	1,182	1,264	1,395	1,233	5,073	1,182	1,327	1,464	1,294	5,268	1,194	1,341	1,479	1,307	5,320
change (% pts)	-1.0%	-5.1%	-9.4%	-7.3%	-5.6%	-6.9%	0.0%	5.0%	5.0%	5.0%	3.8%	1.0%	1.0%	1.0%	1.0%	1.0%
CASM (cents)	25.6	24.9	21.8	20.3	22.2	22.2	24.8	20.9	20.2	21.5	21.7	22.9	21.5	20.5	21.8	21.6
% change	-7.8%	-13.8%	-16.0%	-16.1%	-6.9%	-13.3%	-0.3%	-3.9%	-0.5%	-3.0%	-2.1%	-7.4%	2.8%	1.5%	1.3%	-0.5%
<b>Chorus Aviation Income Statement (\$MM)</b>																
Revenue	1,545	321	310	331	315	1,277	321	327	341	327	1,316	326	336	348	332	1,342
% change	-7.3%	-14.5%	-22.5%	-19.7%	-11.8%	-17.3%	0.0%	5.6%	3.1%	3.7%	3.1%	1.6%	2.6%	2.0%	1.7%	2.0%
Salaries, wages and benefits	436	116	107	104	107	433	114	104	101	105	423	98	107	104	108	416
% Sales	28%	36%	34%	31%	34%	34%	36%	32%	30%	32%	32%	30%	32%	30%	32%	31%
Aircraft fuel	229	1	1	1	1	3	1	0	0	0	1	0	0	0	0	0
% Sales	15%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Depreciation and amortization	60	19	20	21	22	81	22	19	20	22	83	21	21	22	22	86
% Sales	4%	6%	6%	6%	7%	6%	7%	6%	6%	7%	6%	7%	6%	6%	7%	6%
Food and beverage	12	3	3	4	4	13	3	3	4	4	14	3	3	4	4	14
% Sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Aircraft maintenance	197	47	43	47	31	168	44	44	48	32	168	44	44	48	32	168
% Sales	13%	15%	14%	14%	10%	13%	14%	14%	14%	10%	13%	14%	13%	14%	10%	13%
Airport and navigation fees	174	39	39	43	39	161	39	39	46	42	167	41	40	47	42	170
% Sales	11%	12%	13%	13%	12%	13%	12%	12%	14%	13%	13%	12%	12%	14%	13%	13%
Aircraft rent	103	24	22	23	23	91	25	24	24	24	98	25	25	25	25	100
% Sales	7%	7%	7%	7%	7%	7%	8%	7%	7%	7%	7%	8%	7%	7%	8%	7%
Terminal handling	57	12	8	9	11	39	9	9	10	12	41	10	9	11	12	42
% Sales	4%	4%	3%	3%	3%	3%	3%	3%	3%	4%	3%	3%	3%	3%	4%	3%
Other	127	34	33	32	38	136	35	35	41	38	149	31	39	42	39	151
% Sales	8%	10%	11%	10%	12%	11%	11%	11%	12%	12%	11%	9%	12%	12%	12%	11%
Total Operating Expenses	1,395	294	276	283	273	1,125	293	278	295	278	1,145	274	289	302	285	1,150
Operating Income	149	27	34	49	42	151	28	49	46	48	171	52	47	46	47	192
EBITDAR	313	75	76	92	86	324	75	93	91	94	353	98	94	92	94	379
% of sales	20.2%	23.3%	24.6%	27.9%	27.3%	25.4%	23.3%	28.4%	26.7%	28.8%	26.8%	30.2%	27.9%	26.5%	28.4%	28.2%
EBITDA	221	51	58	70	69	248	54	69	67	70	259	73	69	67	69	278
% of sales	14.3%	15.9%	18.6%	21.1%	22.0%	19.4%	16.9%	21.0%	19.5%	21.4%	19.7%	22.4%	20.5%	19.3%	20.9%	20.7%
Net Income	108	20	22	29	31	102	27	29	27	28	111	31	27	26	28	112
EPS (F.D) (\$) (Excluding Special charges)	\$ 0.89	\$ 0.16	\$ 0.17	\$ 0.23	\$ 0.25	\$ 0.81	\$ 0.21	\$ 0.23	\$ 0.21	\$ 0.22	\$ 0.88	\$ 0.24	\$ 0.22	\$ 0.21	\$ 0.22	\$ 0.89
CFPS (F.D) (\$) (Excluding Special charges)	\$ 1.50	\$ 0.33	\$ 0.37	\$ 0.47	\$ 0.52	\$ 1.69	\$ 0.38	\$ 0.43	\$ 0.42	\$ 0.44	\$ 1.68	\$ 0.46	\$ 0.43	\$ 0.42	\$ 0.44	\$ 1.76

Source: Company reports, RBC Capital Markets estimates



WESTJET (TSX: WJA)

FY Dec. 31 (\$MM's)	2015	Q1/16	Q2/16	Q3/16	Q4/16	2016	Q1/17	Q2/17E	Q3/17E	Q4/17E	2017E	Q1/18E	Q2/18E	Q3/18E	Q4/18E	2018E
Traffic (RPMs in MM)	21,527	5,988	5,749	6,414	5,816	23,967	6,393	6,259	6,671	5,990	25,313	6,681	6,541	6,971	6,260	26,452
% change	3.4%	7.6%	10.6%	13.6%	13.7%	11.3%	6.8%	8.9%	4.0%	3.0%	5.6%	4.5%	4.5%	4.5%	4.5%	4.5%
Capacity (ASMs in MM)	26,902	7,294	7,116	7,636	7,253	29,299	7,699	7,564	8,018	7,544	30,825	8,084	7,942	8,419	7,921	32,366
% change	5.2%	7.0%	6.9%	10.6%	11.2%	8.9%	5.5%	6.3%	5.0%	4.0%	5.2%	5.0%	5.0%	5.0%	5.0%	5.0%
Load Factor in (%)	80.0%	82.1%	80.8%	84.0%	80.2%	81.8%	83.0%	82.7%	83.2%	79.4%	82.1%	82.6%	82.4%	82.8%	79.0%	81.7%
change (%pts)	-1.4%	0.5%	2.7%	2.2%	1.8%	1.8%	0.9%	2.0%	-0.8%	-0.8%	0.3%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%
Yield (cents per RPM)	18.72	17.22	16.51	17.53	17.50	17.20	17.43	16.84	18.06	18.03	17.59	17.78	17.18	18.42	18.39	17.94
% change	-2.0%	-11.6%	-8.9%	-5.3%	-6.7%	-8.1%	1.2%	2.0%	3.0%	3.0%	2.3%	2.0%	2.0%	2.0%	2.0%	2.0%
RASM (Revenue per unit of capacity, cents)	15.0	14.1	13.3	14.7	14.0	14.1	14.5	13.9	15.0	14.3	14.4	14.7	14.1	15.2	14.5	14.7
CASM (excl. fuel) (cents)	9.8	10.2	9.9	9.8	10.0	10.0	10.4	10.2	10.4	10.3	10.3	10.7	10.3	10.4	10.3	10.4
<b>Total Revenues</b>	<b>4,029.3</b>	<b>1,031.4</b>	<b>949.3</b>	<b>1,124.3</b>	<b>1,017.8</b>	<b>4,122.9</b>	<b>1,114.3</b>	<b>1,054.0</b>	<b>1,204.4</b>	<b>1,079.8</b>	<b>4,452.5</b>	<b>1,187.7</b>	<b>1,123.5</b>	<b>1,283.8</b>	<b>1,150.9</b>	<b>4,746.0</b>
% change	1.3%	-4.8%	0.8%	7.6%	6.2%	2.3%	8.0%	11.0%	7.1%	6.1%	8.0%	6.6%	6.6%	6.6%	6.6%	6.6%
Airport Operations	557.3	160.1	145.3	120.2	156.3	581.9	168.9	148.6	121.4	156.4	595.3	174.1	156.0	127.5	164.2	621.8
% change	9%	16%	9%	-15%	8%	4%	6%	2%	1%	0%	2%	3%	5%	5%	5%	4%
Aircraft Fuel	814.5	166.4	182.6	206.4	210.5	765.9	235.5	226.9	227.5	216.1	906.1	231.2	222.4	235.1	223.0	911.7
% change	-26%	-21%	-15%	0%	16%	-6%	42%	24%	10%	3%	18%	-2%	-2%	3%	3%	1%
Maintenance	229.1	58.7	53.3	62.1	57.3	231.5	62.0	54.5	62.8	57.4	236.6	63.9	57.2	65.9	60.2	247.2
% change	18%	9%	-4%	0%	0%	1%	6%	2%	1%	0%	2%	3%	5%	5%	5%	4%
Sales & Distribution	381.2	108.4	103.1	120.2	110.9	442.7	114.4	105.4	121.4	111.0	452.3	117.9	110.7	127.5	116.5	472.6
% change	1%	10%	16%	22%	16%	16%	6%	2%	1%	0%	2%	3%	5%	5%	5%	5%
Marketing, General & Administrative	232.6	60.9	56.3	65.6	60.5	243.2	64.3	57.5	66.2	60.5	248.6	66.3	60.4	69.5	63.5	259.7
% change	3%	5%	-4%	12%	5%	5%	6%	2%	1%	0%	2%	3%	5%	5%	5%	4%
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
% change	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Flight Operations	497.2	142.5	131.3	153.0	141.2	567.9	150.4	134.2	154.5	141.2	580.4	155.0	140.9	162.2	148.3	606.4
% change	9%	14%	9%	21%	13%	14%	6%	2%	1%	0%	2%	3%	5%	5%	5%	4%
In-Flight	207.6	58.9	53.4	62.3	57.5	232.1	62.1	54.6	62.9	57.5	237.2	64.0	57.4	66.1	60.4	247.8
% change	21%	22%	-2%	32%	0%	12%	6%	2%	1%	0%	2%	3%	5%	5%	5%	4%
Employee Profit Sharing	101.0	22.5	-1.2	31.6	6.5	59.3	7.0	10.5	36.1	10.8	64.5	35.6	11.2	38.5	11.5	96.9
% change	47%	-55%	-113%	-4%	-27%	-41%	-69%	-984%	14%	67%	9%	407%	7%	7%	7%	50%
<b>EBITDAR (after profit sharing)</b>	<b>1,008.8</b>	<b>251.3</b>	<b>193.2</b>	<b>303.5</b>	<b>221.0</b>	<b>969.0</b>	<b>223.0</b>	<b>191.8</b>	<b>297.7</b>	<b>225.0</b>	<b>937.5</b>	<b>234.1</b>	<b>218.5</b>	<b>325.8</b>	<b>252.4</b>	<b>1,030.8</b>
% of sales	25.0%	24.4%	20.4%	27.0%	21.7%	23.5%	20.0%	18.2%	24.7%	20.8%	21.1%	19.7%	19.5%	25.4%	21.9%	21.7%
<b>EPS F.D.</b>	<b>2.89</b>	<b>0.71</b>	<b>0.30</b>	<b>0.97</b>	<b>0.47</b>	<b>2.45</b>	<b>0.41</b>	<b>0.26</b>	<b>0.81</b>	<b>0.46</b>	<b>1.95</b>	<b>0.47</b>	<b>0.41</b>	<b>0.97</b>	<b>0.62</b>	<b>2.46</b>

Source: Company Reports; RBC Capital Markets Estimates



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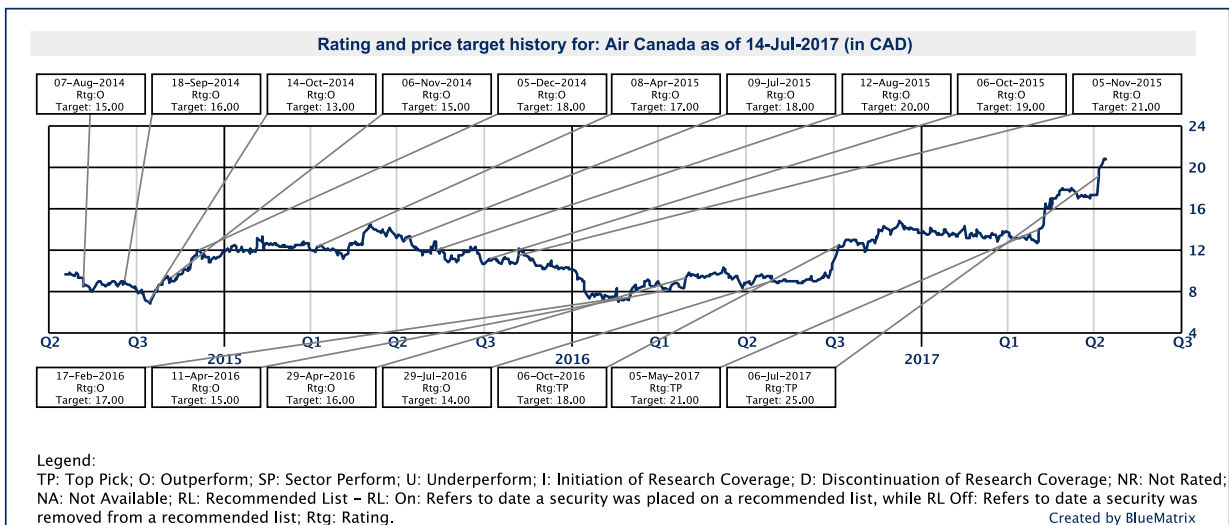
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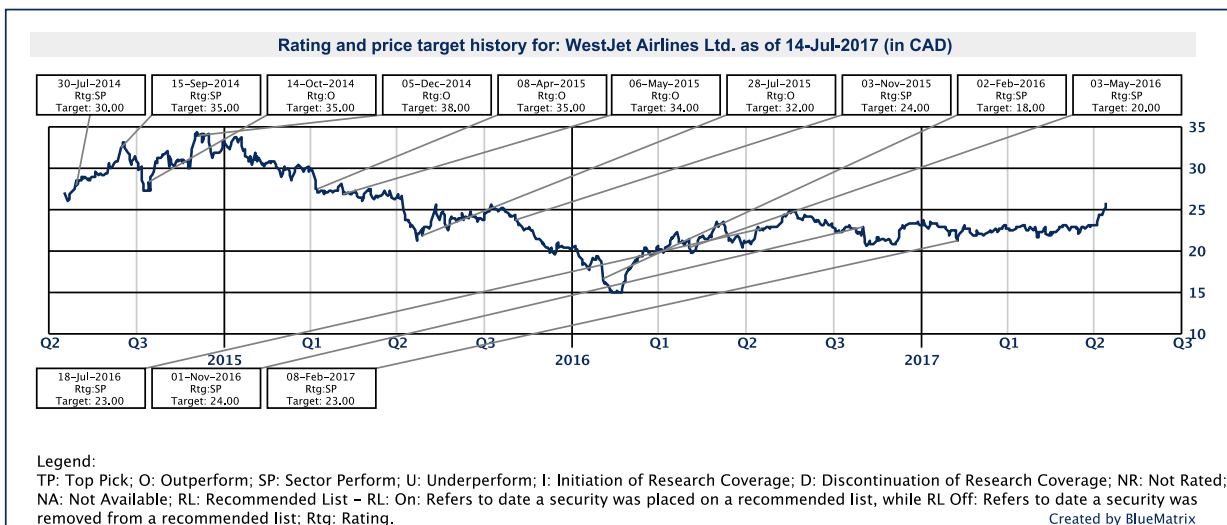
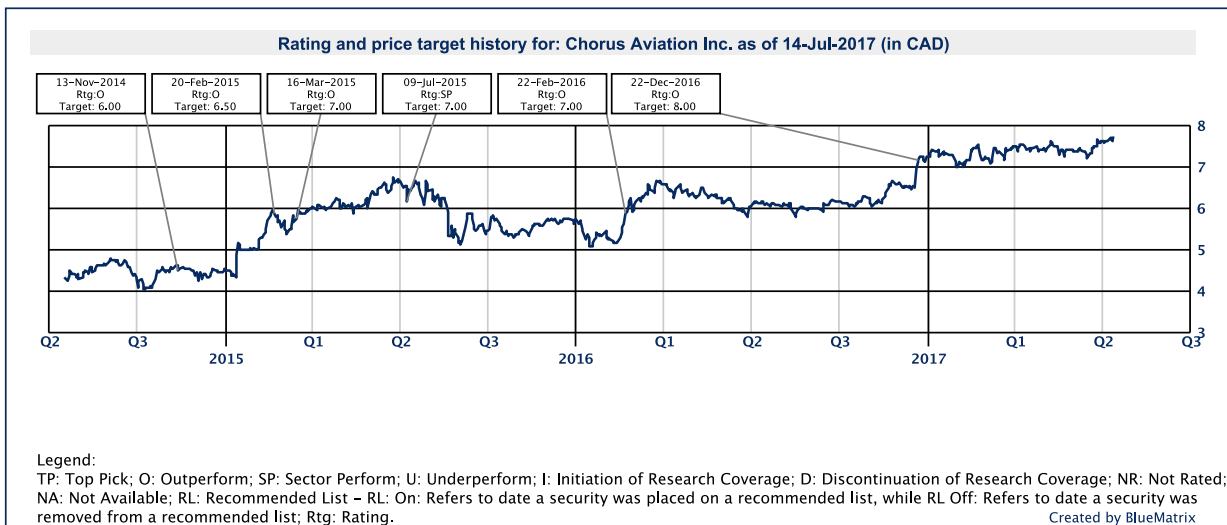


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## Air Canada

### Valuation

On a 4.2x EV/EBITDAR applied to our 2018 estimates, we derive our price target of \$25.00. Our EBITDAR multiple remains in line to the peer legacy group average and lower end of the historical multiple range, taking into account Air Canada's high balance sheet leverage. 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 Top Pick, 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 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 \$8.00 price target on CHR shares is derived from a EV/EBITDAR multiple approach, supported by our discounted cash flow valuation analysis. We are applying a 6.5x EBITDAR multiple to our 2018E EBITDAR at \$379MM, which is a 60bp premium to the regional jet peers owing to the anticipated growth and diversification into regional aircraft leasing. This generates our \$8.00 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 \$25 price target is based on an EV/EBITDAR approach whereby we apply a 5.0x multiple to our 2018 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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