



April 18, 2018

RBC Flight Deck

Clear skies ahead-traffic continues to impress

RBC Fare Survey points to higher prices in March. 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 March as both Air Canada and WestJet show year-over-year gains. AC fares are 9.7% higher than last year, the highest level since we started tracking the data in 2012. WestJet also reported strong gains in March, albeit following a weak February, but fare prices are still up 3.8% Y/Y.

Overall traffic remains robust. WestJet reported strong traffic numbers of 6.5% in Q1, in excess of capacity growth of 4.3%, leading to a system load factor of 85% (up 180 points Y/Y). Also the peer group, on average, reported 4.9% traffic growth this quarter. This was above the average capacity growth of 3.3%, leading to a load factor growth of 1.5%. North American carriers have been managing capacity well, but we are starting to see capacity rise, and expect this to continue in 2018.

Updating estimates ahead of Q1: We made modest changes to our estimates, mostly due to yield trends we saw from the RBC Fare Tracker. While the rise in fuel prices was a slight negative, this had more of an impact on longer-term estimates. Further details are on pages 4-6.

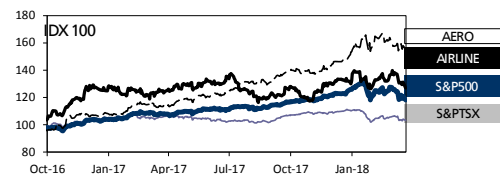
- **AC: Maintaining Outperform, Speculative Risk; increasing price target to \$32 (from \$31).** Our Fare Tracker points to steady and strong price gains on a quarter-over-quarter basis, and so we have increased yield estimates from 2.4% to 5% Y/Y. This pushed our Q1 EBITDAR estimate to \$283M (from \$210M). While the stock has somewhat recovered from the early 2018 sell-off related to fuel concerns, we still see valuation levels very attractive relative to peers and reiterate it as our preferred name in the sector.
- **WJA: Maintaining Sector Perform; lowering price target to \$25 (from \$28).** Despite strong traffic growth, our Fare Tracker has shown volatile pricing in the quarter, so we adjusted our yield estimate to +3% Y/Y growth (down from +4%). For Q1, we forecast EBITDAR of \$234M (from \$237M), which is slightly above consensus of \$222M.
- **CHR: Maintaining Outperform and \$11.00 price target:** Given the stable nature of Chorus's CPA with Air Canada, we do not see much in the way of EBITDAR variability. We will look for some commentary on Chorus's leasing portfolio, which has now grown to 23 aircraft, and how they will deploy new capital in this business.

In this edition...

- **RBC Fare Tracker (p. 2):** Seeing positive fare growth for AC and WJA this month.
- **Company Tear Sheets (p. 4)**



INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&P500	(2.0)	(5.8)	(3.0)	▼
S&P 500	(4.7)	(0.6)	12.7	▼
AMEX Airline	(5.9)	(2.9)	2.4	▼
AMEX Aerospace	(3.6)	7.7	38.6	▼



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	5.9	8.8	21.0	Δ
Jet Fuel	12.9	1.4	29.7	Δ
CAD/USD	(1.9)	0.2	(5.4)	▼
AEROSPACE				
Bombardier	(2.4)	20.8	64.9	▼
Boeing	(5.6)	13.5	88.6	▼
EADS	(3.0)	15.0	34.2	▼
Embraer	(3.7)	9.4	21.1	▼
General Dynamics	(6.7)	5.4	14.3	▼
Textron	(3.3)	3.2	21.2	▼
United Technologies	(8.3)	(3.6)	8.9	▼
N.A. MAINLINE				
Air Canada	(6.6)	(2.0)	91.5	▼
AMR	(15.4)	(8.8)	12.1	▼
Delta	(6.7)	(6.5)	16.4	▼
United	(5.5)	0.3	(5.5)	▼
N.A. REGIONAL				
Alaska	(7.6)	(18.6)	(32.8)	▼
Allegiant	(4.9)	7.1	4.9	▼
Chorus Aviation	0.9	(14.5)	9.6	Δ
JetBlue	(12.0)	(13.3)	(8.9)	▼
SkyWest	(8.3)	0.1	67.1	▼
Southwest	(9.3)	(17.3)	(0.2)	▼
WestJet	(5.3)	(12.7)	0.9	▼
INTL AIRLINES				
Lufthansa	4.3	(12.5)	76.1	Δ
Air France/KLM	(6.5)	(35.6)	20.9	▼
BA/Iberia	0.5	(3.7)	18.7	Δ
Cathay Pacific	(1.6)	3.3	(43.8)	▼
Air China	(3.3)	12.9	56.0	▼
China Eastern	(5.4)	7.8	40.5	▼
China Southern	(12.4)	6.2	57.0	▼
Singapore Airlines	0.4	3.1	7.9	Δ
Qantas	2.0	20.8	55.4	Δ

Source: Bloomberg

Canadian Airlines Q1/18 preview

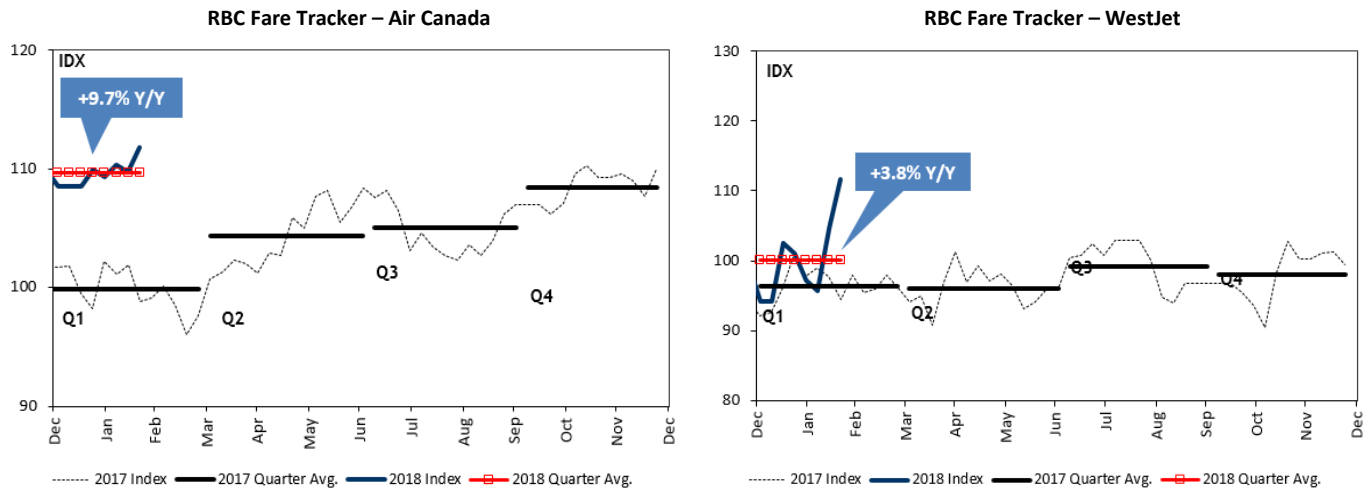
Strong operating trends but potential fuel/CAD headwind

Q1/18 is setting up to be a solid quarter for the Canadian airlines from an operating perspective. Q1 has usually not been the strongest quarter for traffic, and yet preliminary data suggests traffic growth continues to exceed expectations. WestJet’s traffic statistics rose an impressive 6.5% in Q1 Y/Y, and global peers reported an average 4.9% increase in traffic Y/Y in Q1. Further, Canadian airlines seem to be managing capacity well and according to the RBC Fare Tracker, fare pricing remains strong (see below). However, this quarter we may see a slight headwind from modestly higher jet fuel prices and a weaker CAD, both of which we have accounted for in our estimates. We note that Air Canada has been recently successful in passing on higher fuel costs in Q4, and it remains our preferred name in the sector.

Fare Prices shows demand remains strong

As tracked by the RBC Fare Survey, the Canadian airlines kept fares firm while managing strong traffic growth. For Air Canada, Q1 was the fourth consecutive quarter of positive growth, with the RBC Fare Survey showing fares increasing +9.7% Y/Y. After adjusting down by 250bp for mix, it implies a yield increase of +7.2% Y/Y (we are forecasting all in yields of +5%). WestJet fares showed a sharp drop in prices in February followed by a strong recovery in March. Despite the volatility, the RBC Fare Survey picked up positive fare growth in Q1 of +3.8% Y/Y for WestJet. After adjusting down by 50bp to account for mix, it implies a positive yield of 3.3% Y/Y (we are forecasting all in yields at +3.5%).

Exhibit 1: Fares were higher Y/Y in Q1 on top of strong traffic levels



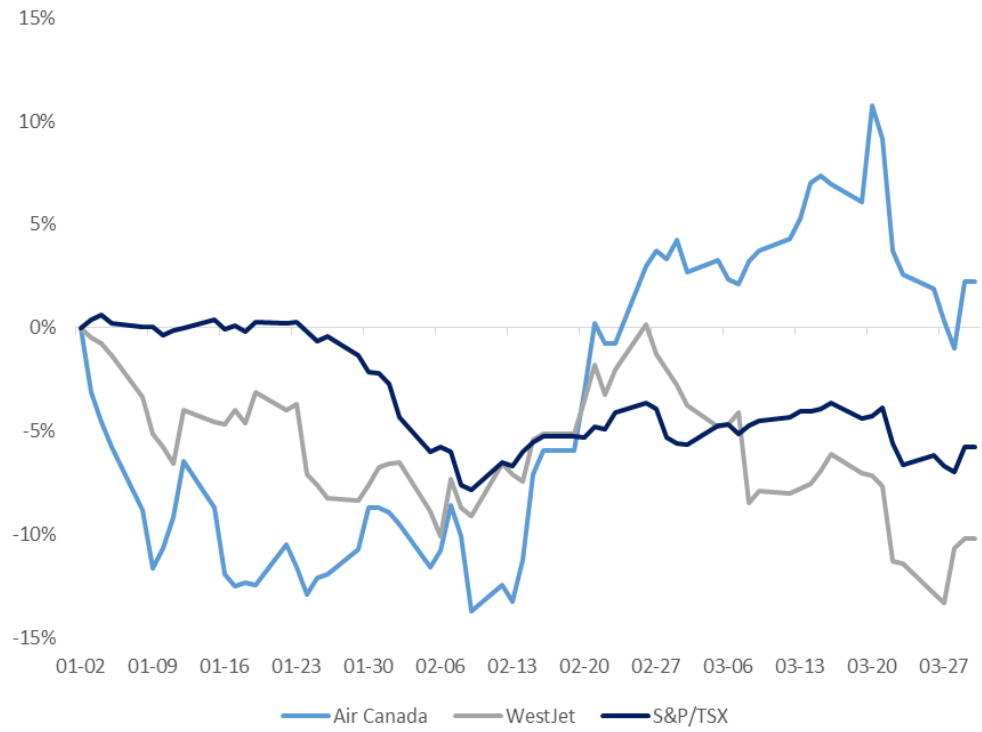
Source: Air Canada, WestJet, RBC Capital Markets estimates

Weak quarterly share price moves despite strong airline traffic

We note that despite solid underlying trends, the Canadian airline shares finished the quarter mixed. Both Air Canada and WestJet were under pressure towards the beginning of the year over concerns of rising fuel prices. Air Canada reversed course following a solid Q4, which showed strong traffic trends, a yield increase, and better-than-anticipated cost reductions. WestJet delivered Q4 results that were in-line with expectations; however, the company later lowered Q1 RASM guidance and announced the early retirement of Gregg Saretsky, the CEO for over 8 years. This caused some investor apprehension and valuation levels have lagged ever since. More recently, concerns over the economic impact of trade wars has weighed on the CAD, and kept a lid on share price performance for both airlines.



Exhibit 2: Air Canada slightly outperformed TSX during Q1



Source: Factset, RBC Capital Markets

Q1 Preview: Slight estimate changes

We made modest changes to our estimates, mostly due to yield trends from the RBC Fare Tracker. AC's fare growth has surprised to the upside while WJA's has slightly lagged behind expectations, and so we modified Q1 yield estimates accordingly. The rise in fuel prices was a slight negative, but this had more of an impact on longer-term estimates. As a result of our adjustments, our price targets for both Air Canada and WestJet have changed. Details are in the company summaries that follow.



Air Canada (TSX: AC)

Outperform, Speculative Risk; \$32 Target (from \$31)

SUMMARY

Market price:	\$25.84	52-Wk High:	\$29.11
Yield (12-mth):	0.0%	52-Wk Low:	\$12.49
Total est. return:	24%	Mkt Cap (MM):	\$7,184
Shares O/S (MM):	278.0	Net Debt (MM):	\$6,393
Float (MM):	\$7,184	EV (MM):	\$13,577

CONFERENCE CALL DETAILS

- Monday, April 30th at 8:30AM ET
- 1-800-478-9326

STOCK SET-UP

Q1/18 performance	
Absolute	2.2%
vs. S&P/TSX	799 bps

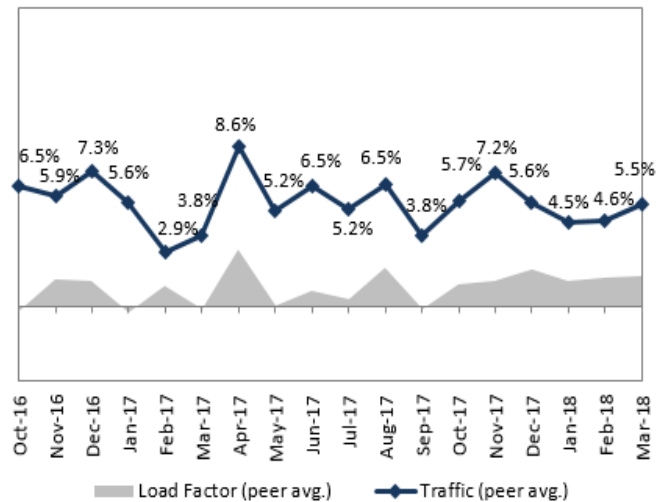
Short Interest (Days to Cover)	
Current	1.5
3-Month Average	2.8

Analyst Sentiment	
Outperform	83%
Sector Perform	17%
Underperform	0%

Q1/18 set-up. We see another strong quarter of demand as driving further value in the near-term, as traffic trends remain strong. Our fare tracker is pointing to steady and strong price gains on a quarter-over-quarter basis, and so we have increased our yield estimates from 2.4% to 5%. This impacts revenue, pushes our EBITDAR estimates higher to \$283M (vs. consensus at \$285M), and increases our price target to \$32 (from \$31).

Maintain AC as preferred name. 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 very attractive relative to peers. Maintain Outperform, Speculative Risk.

TRAFFIC DATA



	Q1/18E			2018E			2019E		
	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var
Traffic: RPMs (% chg)	9.5%	9.5%	0bp	6.6%	6.6%	0bp	2.0%	2.7%	74bp
Capacity: ASMs (% chg)	9.5%	9.5%	0bp	6.9%	6.9%	0bp	3.0%	3.0%	0bp
Load Factor (%pts)	80.1%	80.1%	0bp	82.0%	82.0%	0bp	80.6%	81.8%	119bp
Yield (% chg)	2.4%	5.0%	260bp	3.1%	3.8%	64bp	1.5%	1.5%	1bp
RASM (% chg)	2.7%	5.3%	261bp	0.9%	1.4%	56bp	0.5%	1.3%	74bp
Adj. CASM ex fuel+other (% chg)	1.8%	2.8%	99bp	-0.4%	-0.2%	24bp	-0.2%	0.3%	48bp
Avg Jet Fuel Price: (\$/Ltr)	\$0.71	\$0.71	-0.8%	\$0.70	\$0.71	1.1%	\$0.63	\$0.69	11.1%
Revenue	3,961	4,048	2.2%	17,443	17,529	0.5%	17,318	18,239	5.3%
Expenses	3,751	3,764	0.3%	14,433	14,500	0.5%	13,949	14,867	6.6%
EBITDAR	210	283	34.9%	3,009	3,029	0.6%	3,370	3,372	0.1%
EPS ex-one time items (\$)	(0.88)	(0.47)		3.75	2.73		3.43	3.50	
<i>Consensus EBITDAR</i>		285			2,975			3,458	

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

Priced as of market close April 17, 2018



Chorus Aviation (TSX: CHR)

Outperform; \$11 Target (unchg.)

SUMMARY

Market price:	\$8.23	52-Wk High:	\$9.86
Yield (12-mth):	5.8%	52-Wk Low:	\$7.15
Total est. return:	39%	Mkt Cap (MM)	\$1,133
Shares O/S (MM):	137.6	Net Debt (MM)	\$1,396
Float (MM):	\$1,133	EV (MM):	\$2,528

STOCK SET-UP

Q1/18 performance	
Absolute	-13.5%
vs. S&P/TSX	-776 bps

Short Interest (Days to Cover)	
Current	1.1
3-Month Average	1.6

Analyst Sentiment	
Outperform	100%
Sector Perform	0%
Underperform	0%

CONFERENCE CALL DETAILS

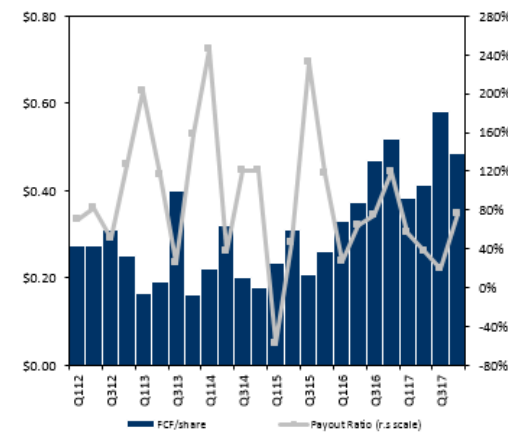
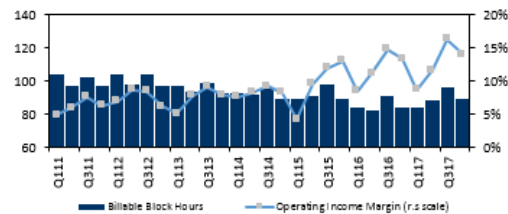
- Friday, May 4th @ 11:00AM
- 1-888-231-8191

Q1/18 set-up: We have modestly increased our yield assumptions for Chorus Aviation Capital, given a continued strong leasing market for regional jets. This led to a slightly higher EBITDAR of \$112MM, a touch above consensus at \$110MM. During the quarter, CHR also raised \$100MM in equity. While this increased the share count, which initially lowered our price target, the increasing level of capex into the leasing business resulted in higher implied forward returns. As a result, our price target remains constant at \$11.

Progress on leasing subsidiary. Chorus's leasing portfolio has now grown to 23 aircraft by the end of Q1. For this quarter, we will be looking for management's commentary on the deployment of the remaining capital under the \$200M private placement (now 80% complete) and plans to deploy the \$100MM equity raise (with ~\$300MM in leverage).

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.

OPERATING METRICS



	Q1/18E			2018E			2019E		
	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var
Revenue breakdown									
Controllable Revenue	203	204	0.7%	814	817	0.4%	827	830	0.3%
Leasing under CPA	25	25	0.0%	98	98	0.0%	97	97	0.0%
Margin compensation	28	28	0.0%	112	112	0.0%	112	112	0.0%
Incentives	4	4	0.0%	14	14	0.0%	14	14	0.0%
Pass through revenue	64	64	0.0%	274	274	0.0%	283	283	0.0%
Passenger revenue	323	324	0.4%	1,313	1,316	0.2%	1,333	1,335	0.2%
Other revenue	18	22	20.8%	79	99	25.1%	100	125	24.9%
Total Revenues	341	346	1.5%	1,413	1,414	0.1%	1,466	1,460	-0.4%
Total Expenses	282	283	0.5%	1,165	1,168	0.3%	1,190	1,193	0.2%
EBITDAR	109	112	2.6%	434	442	1.7%	456	461	1.0%
<i>Consensus EBITDAR</i>		<i>110</i>			<i>462.4</i>			<i>496.8</i>	

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

Priced as of market close April 17, 2018



WestJet (TSX: WJA)

Sector Perform; \$25 Target (from \$28)

SUMMARY

Market price:	\$22.96	52-Wk High:	\$28.00
Yield (12-mth):	2.5%	52-Wk Low:	\$21.54
Total est. return:	11%	Mkt Cap (MM):	\$2,691
Shares O/S (MM):	117.2	Net Debt (MM):	\$1,071
Float (MM):	\$2,640	EV (MM):	\$3,762

STOCK SET-UP

Q1/18 performance	
Absolute	-10.2%
vs. S&P/TSX	-441 bps

Short Interest (Days to Cover)	
Current	2.4
3-Month Average	2.5

Analyst Sentiment	
Outperform	16%
Sector Perform	79%
Underperform	5%

CONFERENCE CALL DETAILS

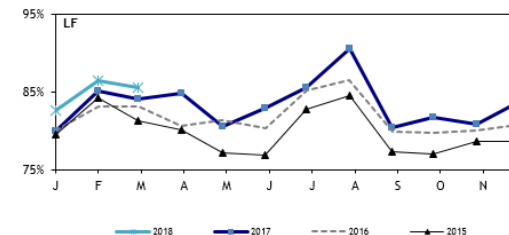
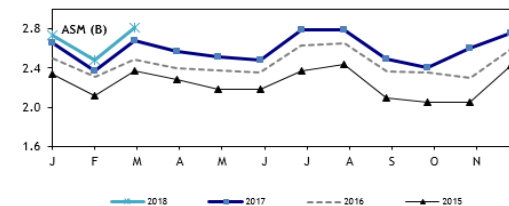
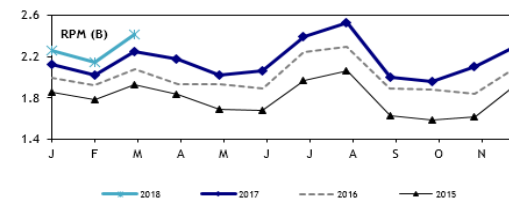
- Tuesday, May 8th @ 10:00AM
- 416-915-3239

Q1/18 set up. We have updated our estimates to account for slightly higher fuel prices. In addition, according to our fare tracker, there has been some variability in price growth. Therefore, we have modestly decreased our yield expectations for the quarter (from 4% to 3% Y/Y). Our EBITDAR estimates moved slightly lower to \$234MM (vs. consensus at \$222MM).

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 the remainder of 2018; 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 note there is still a lot of uncertainty surrounding the stock - from the recent CEO change, the ever-present threat of unionization within the workforce, and the continued complexity of launching Swoop. As such, we are reducing our EBITDAR multiple to 4.7x (from 4.9x), which moves our price target to \$25 (from \$28). We still consider there to be better valuation upside in CHR and AC shares.

TRAFFIC DATA



	RBC CM Q1/18E			RBC CM 2018E			RBC CM 2019E		
	Old	New	Var	Old	New	Var	Old	New	Var
Traffic: RPMs (% chg)	6.0%	6.5%	54bp	7.0%	7.1%	13bp	7.5%	7.5%	0bp
Capacity: ASMs (% chg)	4.7%	4.2%	-42bp	7.1%	7.1%	0bp	8.0%	8.0%	0bp
Load Factor (%pts)	1.1%	1.8%	77bp	0.0%	0.1%	10bp	-0.4%	-0.4%	0bp
Yield (% chg)	4.0%	3.0%	-100bp	2.7%	2.4%	-36bp	1.0%	1.0%	0bp
RASM (% chg)	5.3%	5.3%	-6bp	2.7%	2.4%	-23bp	0.5%	0.5%	0bp
Adj. CASM ex fuel+other items (% chg)	2.4%	2.6%	14bp	1.9%	1.9%	-3bp	1.4%	1.4%	0bp
Avg Jet Fuel Price (\$C/Ltr)	0.72	0.72	0.0%	0.68	0.70	2.3%	0.68	0.69	1.5%
Revenue	1,228	1,223	-0.5%	4,949	4,938	-0.2%	5,374	5,361	-0.2%
Expenses	992	989	-0.3%	3,919	3,934	0.4%	4,242	4,262	0.5%
EBITDAR	237	234	-1.1%	1,030	1,004	-2.5%	1,132	1,100	-2.8%
Consensus EBITDAR		222			1,046			1,191	

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

Priced as of market close April 17, 2018



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

- **Bombardier's 2018 goal within reach as CSeries deliveries accelerate.** Bombardier in the last several weeks significantly picked up the pace of CSeries deliveries, handing four aircraft to customers in March and putting the company on a trajectory that makes its 2018 delivery goal within reach. The four aircraft delivered in March – all the larger CS300 variant – included two aircraft delivered to Korean Air, and two handed over to Swiss Global Air Lines, Fleets Analyzer shows. Though Bombardier has delivered just five aircraft year-to-date, the company can meet its 40-aircraft 2018 goal by maintaining a roughly four-aircraft-per-month delivery pace. If that happens, Bombardier also stands to begin delivering CS100s in 2018 to Delta Air Lines, a development that would finally see the aircraft flying for a major North American airline. (Flight Global, April 6, 2018).
- **Boeing will not appeal case against Bombardier at U.S. Trade Court.** Boeing Co will not appeal against the U.S. trade commission ruling that allows Canada's Bombardier Inc to sell its newest jets to U.S. airlines without heavy duties, a Boeing spokesman said. The decision by Boeing puts the trade challenge to rest. A Canadian government official who spoke on condition of anonymity said Boeing's decision was "good news". The U.S. International Trade Commission (ITC) unanimously voted in January to reject Boeing's complaint and discarded a Commerce Department recommendation to slap a near 300 per cent duty on sales of the 110-to-130-seat Bombardier C Series jets for five years. The ITC ruled the 110-seat C Series jets ordered by Delta and Boeing's smallest 737 MAX 7 plane do not compete. (The Globe and Mail, March 22, 2018)

Regional jets

- **Bombardier switches focus to CRJ.** After making its AIX debut last year with a production-standard cabin mock-up of the newly in-service CSeries, Bombardier is back at Hamburg, but this time the emphasis is on its CRJ family and the Atmosphere cabin it unveiled last year. Bombardier, which has struggled in recent years to meet sales expectations for the CRJ and Q400 turboprop as it has focused on the CSeries, is hanging its hopes on an upswing in orders for the CRJ as airlines look to replace ageing smaller regional jets. (Source: Flight Global, April 9th)

Business jets

- **China tariffs on U.S. business jets seen as a boon for Canada's Bombardier.** China's plan to slap tariffs on some U.S.-made planes will hit demand for Gulfstream and Boeing business jets but benefit Canada's Bombardier and other rivals seeking a larger share of Asia's biggest market, jet brokers and analysts said. Gulfstreams are the top-selling business jet brand in China, where they compete fiercely against Bombardier's Global series and, to a much lesser extent, against the smaller Falcon models of France's Dassault Aviation SA. (Source: Reuters, April 5th)



CAE

Civil

- **L3 enters into training agreement to deliver training to WOW Air:** L3 Commercial Training Solutions (L3 CTS) entered into a new training agreement with WOW Air to deliver recurrent training for its pilots over the next three years. The contract will cover the majority of WOW Air's training requirements as it provides crew qualification and simulator training services. The training will take place in L3 CTS's new London training headquarters equipped with 8 FFSs, scheduled to open in late 2018.
- **Ansett awards FFS contract to TRU S&T:** TRU S&T continues to grow in Asia, with its recent win of an ATR-600 full flight simulator order from Ansett Aviation Training, to be delivered to its new training centre in Brisbane. The Level-D certified simulator will provide training services beginning in September 2018. This will be the first ATR 600 FFS in Australia.

Military

- **CAE to provide Qatar Emiri Air Force with NH90 training solution:** QEAF selected CAE to provide comprehensive NH90 training solutions for its NH90 helicopter fleet. The contract includes set up of the training centre facility, simulators, training devices and services, totaling over C\$150MM in contract value. The facility and devices are scheduled to be delivered in 2021, with training services to commence shortly after. We see these orders as largely normal course, and a supportive endorsement of CAE's technology and training capabilities. Further, they are a meaningful addition to CAE's long-term Military backlog, which stood at a record of \$3.5B last quarter.
- **Lockheed Martin and Cubic receive \$3.53bn, 7-year contract to maintain US Army's training aids:** Lockheed Martin and Cubic Global Defense received a seven-year, \$3.53bn contract from the US Army to support the Army's readiness and training at 300 locations worldwide. As part of the contract, LMT and Cubic will sustain over 300,000 fielded TADSS (training aids, devices, simulators and simulations) systems globally.

Source: CAE, Flight Global, Aviation Pros



Valuation

Air Canada

On a 4.4x EV/EBITDAR applied to our 2019 estimates, we derive our price target of \$32. Our discount to the peer legacy group average is 0.6x. 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 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 \$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

Our \$25 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 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.



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

FY Dec 31	2016	Q1/17	Q2/17	Q3/17E	Q4/17	2017A	Q1/18E	Q2/18E	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	2020E
Traffic / RPM (MMs)	76,481	18,341	20,928	26,472	19,396	85,137	20,083	22,393	27,928	20,366	90,770	20,585	23,065	28,626	20,977	93,253	95,700
% change	13.2%	14.0%	13.6%	8.8%	9.9%	11.3%	9.5%	7.0%	5.5%	5.0%	6.6%	2.5%	3.0%	2.5%	3.0%	2.7%	2.6%
Capacity / ASM (MMs)	92,726	22,894	25,357	31,050	24,191	103,492	25,069	27,259	32,913	25,401	110,641	25,821	28,077	33,900	26,163	113,960	117,379
% change	14.7%	15.4%	13.5%	9.1%	9.5%	11.6%	9.5%	7.5%	6.0%	5.0%	6.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Load Factor (%)	82.5%	80.1%	82.5%	85.3%	80.2%	82.3%	80.1%	82.1%	84.9%	80.2%	82.0%	79.7%	82.1%	84.4%	80.2%	81.8%	81.5%
change (% pts)	-1.0%	-1.0%	0.1%	-0.2%	0.3%	-0.2%	0.0%	-0.4%	-0.4%	0.0%	-0.2%	-0.4%	0.0%	-0.4%	0.0%	-0.2%	-0.3%
Yield (\$)	0.169	0.165	0.165	0.166	0.171	0.167	0.174	0.170	0.171	0.178	0.173	0.176	0.173	0.174	0.181	0.176	0.178
% change	-6.4%	-5.1%	-1.4%	0.4%	1.4%	-1.3%	5.0%	3.0%	3.0%	4.0%	3.8%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
RASM (Rev per unit of capacity, cents)	14.2	13.2	13.6	14.2	13.7	14.0	13.9	14.0	14.5	14.3	14.2	14.0	14.2	14.7	14.5	14.4	14.5
CASM (excl. fuel) (cents)	11.5	12.9	11.2	9.5	11.7	11.1	13.0	10.9	9.5	11.4	11.1	12.8	11.0	9.7	11.4	11.1	11.2
Total Revenues	14,677	3,642	3,910	4,880	3,820	16,252	4,048	4,216	5,191	4,075	17,529	4,200	4,397	5,392	4,249	18,239	18,957
Wages, salaries and benefits	2510	644	663	690	674	2671	703	717	718	715	2853	735	750	751	748	2983	3119
% Sales	17.1%	17.7%	17.0%	14.1%	17.6%	16.4%	17.4%	17.0%	13.8%	17.5%	16.3%	17.5%	17.0%	13.9%	17.6%	16.4%	16.5%
Aircraft Fuel - total	2606	754	797	941	847	3339	917	986	1173	907	3983	943	990	1174	911	4017	3935
% Sales	17.8%	20.7%	20.4%	19.3%	22.2%	20.5%	22.6%	23.4%	22.6%	22.3%	22.7%	22.4%	22.5%	21.8%	21.4%	22.0%	20.8%
Sales and distribution costs	703	205	199	204	169	777	219	208	210	172	810	226	215	216	178	834	859
% Sales	4.8%	5.6%	5.1%	4.2%	4.4%	4.8%	5.4%	4.9%	4.0%	4.2%	4.6%	5.4%	4.9%	4.0%	4.2%	4.6%	4.5%
Food, beverages, supplies	349	85	97	112	89	383	93	104	119	93	410	96	107	122	96	422	434
% Sales	2.4%	2.3%	2.5%	2.3%	2.3%	2.4%	2.3%	2.5%	2.3%	2.3%	2.3%	2.3%	2.4%	2.3%	2.3%	2.3%	2.3%
Aircraft maintenance	883	228	226	241	243	938	330	233	248	267	1078	340	240	256	275	1110	1144
% Sales	6.0%	6.3%	5.8%	4.9%	6.4%	5.8%	8.2%	5.5%	4.8%	6.6%	6.1%	8.1%	5.5%	4.7%	6.5%	6.1%	6.0%
Airport and navigation fees	859	210	230	264	201	905	225	242	273	206	946	232	249	281	212	974	1004
% Sales	5.9%	5.8%	5.9%	5.4%	5.3%	5.6%	5.6%	5.7%	5.3%	5.1%	5.4%	5.5%	5.7%	5.2%	5.0%	5.3%	5.3%
Communications and information technol	242	71	58	63	62	254	70	54	57	57	239	72	56	59	59	246	242
% Sales	1.6%	1.9%	1.5%	1.3%	1.6%	1.6%	1.7%	1.3%	1.1%	1.4%	1.4%	1.7%	1.3%	1.1%	1.4%	1.3%	1.3%
Other	3268	847	867	904	908	3526	943	893	912	880	3628	916	932	996	867	3709	3856
% Sales	22.3%	23.3%	22.2%	18.5%	23.8%	21.7%	23.3%	21.2%	17.6%	21.6%	20.7%	21.8%	21.2%	18.5%	20.4%	20.3%	20.3%
Regional airline expense (ex fuel and DA)	2027	521	535	535	546	2137	559	556	543	562	2220	580	580	564	544	2267	2357
% Sales	13.8%	14.3%	13.7%	11.0%	14.3%	13.1%	13.8%	13.2%	10.5%	13.8%	12.7%	13.8%	13.2%	10.5%	12.8%	12.4%	12.4%
Total Operating Costs	11,420	3,044	3,137	3,419	3,193	12,793	3,501	3,437	3,709	3,298	13,946	3,559	3,538	3,854	3,345	14,296	14,592
EBITDAR	2,768	342	670	1,388	521	2,921	283	672	1,406	667	3,029	369	750	1,461	792	3,372	3,777
% of sales	18.9%	9.4%	17.1%	28.4%	13.6%	18.0%	7.0%	15.9%	27.1%	16.4%	17.3%	8.8%	17.1%	27.1%	18.6%	18.5%	19.9%
EPS (F.D) (\$ (Exc. Special charges)	\$ 4.11	\$ (0.32)	\$ 0.78	\$ 3.51	\$ 0.22	\$ 4.11	\$ (0.47)	\$ 0.50	\$ 2.15	\$ 0.55	\$ 2.73	\$ (0.27)	\$ 0.67	\$ 2.26	\$ 0.85	\$ 3.50	\$ 4.50

Source: RBC CM estimates, Company reports



WESTJET (TSX: WJA)

FY Dec. 31 (\$MM's)	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	Q1/18E	Q2/18E	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E
Traffic (RPMs in MM)	23,967	6,393	6,260	6,922	6,329	25,904	6,811	6,666	7,441	6,835	27,753	7,322	7,166	7,999	7,348	29,835
% change	11.3%	6.8%	8.9%	7.9%	8.8%	8.1%	6.5%	6.5%	7.5%	8.0%	7.1%	7.5%	7.5%	7.5%	7.5%	7.5%
Capacity (ASMs in MM)	29,299	7,699	7,564	8,076	7,659	30,998	8,025	8,093	8,722	8,348	33,189	8,667	8,741	9,420	9,016	35,844
% change	8.9%	5.5%	6.3%	5.8%	5.6%	5.8%	4.2%	7.0%	8.0%	9.0%	7.1%	8.0%	8.0%	8.0%	8.0%	8.0%
Load Factor in (%)	81.8%	83.0%	82.8%	85.7%	82.6%	83.6%	84.9%	82.4%	85.3%	81.9%	83.6%	84.5%	82.0%	84.9%	81.5%	83.2%
change (%pts)	1.8%	0.9%	2.0%	1.7%	2.4%	1.8%	1.8%	-0.4%	-0.4%	-0.8%	0.1%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%
Yield (cents per RPM)	17.20	17.43	16.85	17.56	17.66	17.38	17.95	17.36	17.91	17.92	17.79	18.13	17.53	18.09	18.10	17.97
% change	-8.1%	1.2%	2.1%	0.2%	0.9%	1.0%	3.0%	3.0%	2.0%	1.5%	2.4%	1.0%	1.0%	1.0%	1.0%	1.0%
RASM (Revenue per unit of capacity, cents)	14.1	14.5	13.9	15.1	14.6	14.5	15.2	14.3	15.3	14.7	14.9	15.3	14.4	15.4	14.8	15.0
CASM (excl. fuel) (cents)	10.0	10.4	9.9	9.6	10.3	10.0	10.8	10.2	10.0	10.3	10.3	10.9	10.3	10.2	10.4	10.4
Total Revenues	4,122.9	1,114.3	1,055.0	1,215.6	1,117.4	4,502.3	1,222.8	1,156.9	1,332.8	1,225.1	4,937.5	1,327.6	1,256.1	1,447.1	1,330.1	5,360.9
% change	2.3%	8.0%	11.1%	8.1%	9.8%	9.2%	9.7%	9.7%	9.6%	9.6%	9.7%	8.6%	8.6%	8.6%	8.6%	8.6%
Airport Operations	581.9	168.9	154.5	127.1	158.7	609.3	172.8	159.0	132.1	173.0	636.9	186.7	171.7	142.6	186.9	687.9
% change	4%	6%	6%	6%	2%	5%	2%	3%	4%	9%	5%	8%	8%	8%	8%	8%
Aircraft Fuel	765.9	235.5	224.9	238.0	251.6	950.0	277.9	275.0	294.1	271.6	1118.6	296.4	291.0	310.0	287.4	1184.7
% change	-6%	42%	23%	15%	20%	24%	18%	22%	24%	8%	18%	7%	6%	5%	6%	6%
Maintenance	231.5	62.0	56.7	65.7	58.2	242.6	63.4	58.3	68.3	63.5	253.5	68.5	63.0	73.7	68.6	273.8
% change	1%	6%	6%	6%	2%	5%	2%	3%	4%	9%	4%	8%	8%	8%	8%	8%
Sales & Distribution	442.7	114.4	109.6	127.1	112.6	463.9	117.1	112.8	132.1	122.8	484.8	126.5	121.9	142.6	132.6	523.5
% change	16%	6%	6%	6%	2%	5%	2%	3%	4%	9%	5%	8%	8%	8%	8%	8%
Marketing, General & Administrative	243.2	64.3	59.8	69.3	61.4	254.9	65.8	61.5	72.0	67.0	266.3	71.1	66.5	77.8	72.3	287.7
% change	5%	6%	6%	6%	2%	5%	2%	3%	4%	9%	4%	8%	8%	8%	8%	8%
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	567.9	150.4	139.5	161.8	143.4	595.1	153.9	143.6	168.1	156.3	621.8	166.2	155.1	181.5	168.8	671.6
% change	14%	6%	6%	6%	2%	5%	2%	3%	4%	9%	4%	8%	8%	8%	8%	8%
In-Flight	232.1	62.1	56.8	65.9	58.4	243.2	63.6	58.5	68.4	63.6	254.1	68.6	63.1	73.9	68.7	274.4
% change	12%	6%	6%	6%	2%	5%	2%	3%	4%	9%	4%	8%	8%	8%	8%	8%
Employee Profit Sharing	59.3	7.0	7.8	27.6	4.4	46.8	18.3	17.4	20.0	18.4	74.1	19.9	18.8	21.7	20.0	80.4
% change	-41%	-69%	-751%	-13%	-32%	-21%	161%	124%	-28%	318%	58%	9%	9%	9%	9%	9%
EBITDAR (after profit sharing)	969.0	223.0	217.9	342.4	224.5	1,007.9	233.9	203.4	322.8	243.8	1,004.0	255.0	223.4	354.2	266.6	1,099.2
% of sales	23.5%	20.0%	20.7%	28.2%	20.1%	22.4%	19.1%	17.6%	24.2%	19.9%	20.3%	19.2%	17.8%	24.5%	20.0%	20.5%
EPS F.D.	2.45	0.41	0.41	1.18	0.41	2.41	0.42	0.31	0.95	0.50	2.18	0.45	0.34	1.05	0.55	2.39

Source: Company Reports; RBC Capital Markets Estimates



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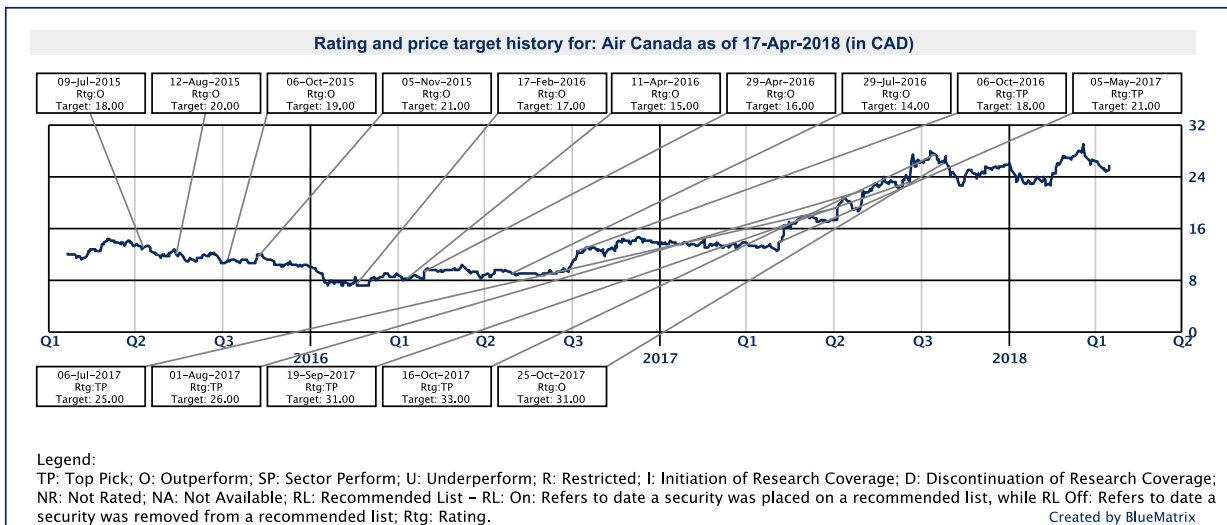
Risk Rating

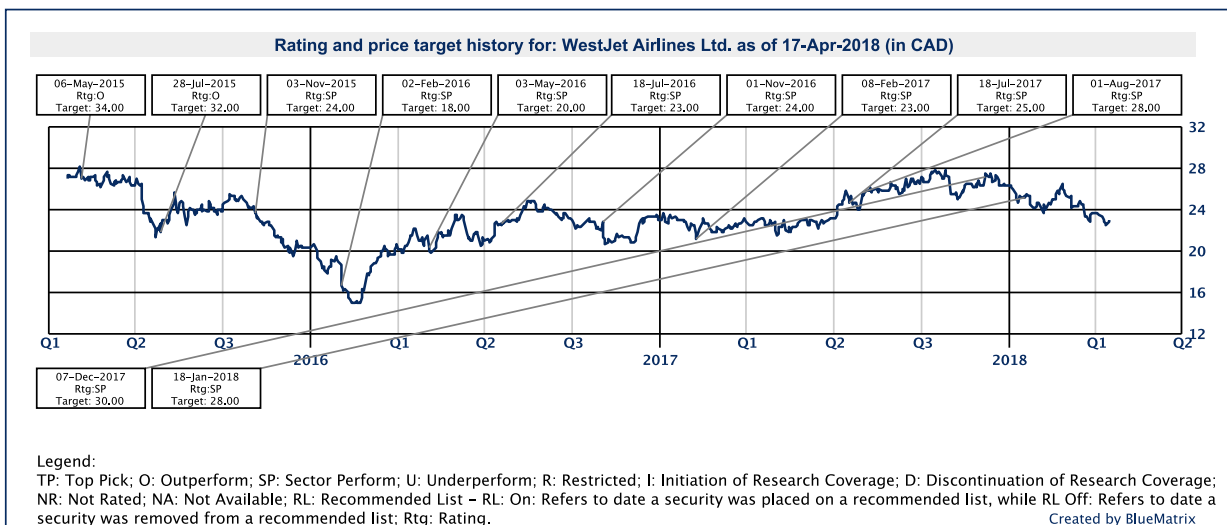
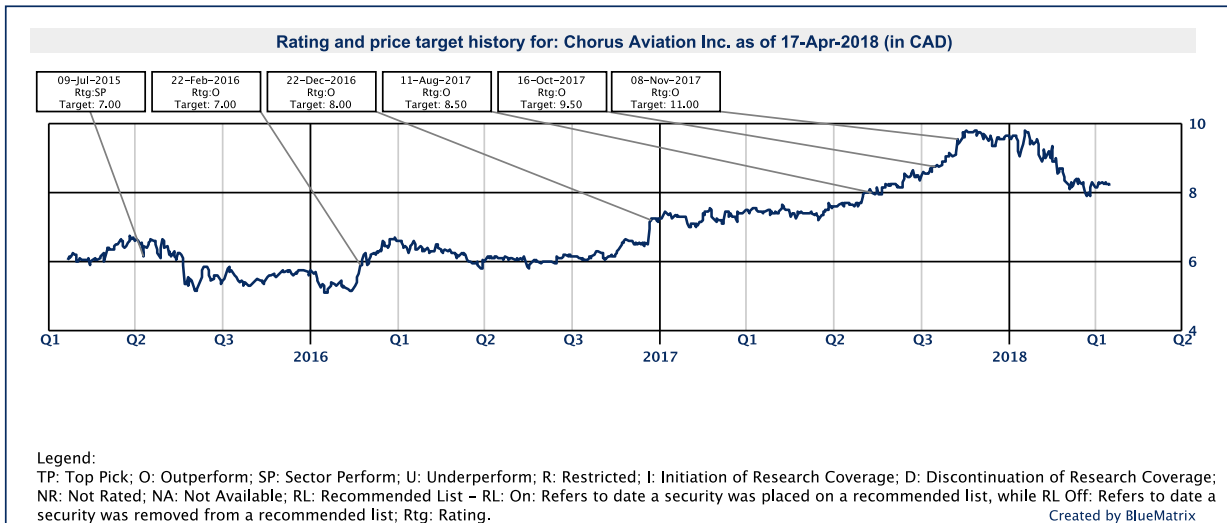
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Air Canada

Valuation

Our \$32.00 target price is based on a 4.4x 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 \$25 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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