



November 14, 2018

RBC Flight Deck

October 2018 - Strong and steady

Fares higher double digits Y/Y for both AC and WJA. Our proprietary Fare Survey tracks price changes on selected routes to gauge the direction and magnitude of fare prices in the month. Based on this data, overall fare growth is strong so far in Q4 as both Air Canada and WestJet showed double digit gains Y/Y. AC fares are 10.3% higher than Q4 last year, the highest level since we started tracking the data in 2012. While WJA fares did show some weakness in the month of October, they are still up a healthy 13.8% Y/Y (albeit off a weak quarter last year).

Traffic remains healthy, expect capacity growth to moderate. Traffic growth continues to clip at a healthy rate. For the month of October, WJA reported traffic growth 7.4% Y/Y (vs. RBC at 5%) on capacity growth of 8.5% (vs. RBC at 5.5%). Traffic trends across the global peer group also remain healthy, up 7.4% Y/Y. However, a surge in capacity led to the third consecutive monthly decrease in the load factor for the global peers. We point out that both the Canadian airlines have guided for a slight moderation in Q4 capacity, and if global peers follow suit, this would be a healthy sign for the market

AC's International and Transborder segment fares strong. For October, our fare tracker picked up relatively strong pricing for the International and Transborder destinations for Air Canada. We view the International segment as becoming increasingly important given AC's effort to diversify and expand into overseas routes. Within the domestic segments, both WJA and AC posted slight decreases in fare prices on a M/M basis.

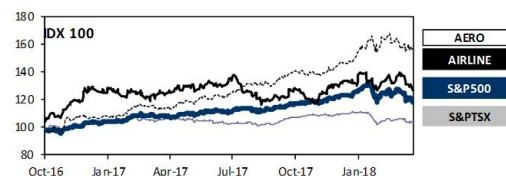
Expect fare prices to remain strong. Even with the recent decline in oil prices, we expect fare prices to remain strong. AC remains focused on achieving a 16% EBITDAR margin in 2018. WJA is still dealing with high levels of CASM as they rollout the Dreamliner routes, and have guided to positive RASM in Q4. We see higher fare prices as the most likely solution for both.

In this edition...

- **RBC Fare Tracker (p. 2):** Seeing positive fare growth from AC and WJA in Q3.
- **The Load Factor (p. 3):** Traffic remains robust
- **Air Buzz (p. 4) -** Bombardier and CAE Headlines



INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTSX	(1.9)	(6.7)	(5.0)	▼
S&P 500	(2.2)	1.2	4.9	▼
AMEX Airline	6.1	(12.3)	(2.5)	Δ
AMEX Aerospace	(4.5)	1.8	8.1	▼



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	(20.4)	(2.4)	3.9	▼
Jet Fuel	(8.2)	0.7	14.5	▼
CAD/USD	1.9	5.3	4.0	Δ

AEROSPACE	1-M (%)	YTD (%)	1-YR (%)	TREND
Bombardier	(45.9)	(28.4)	(30.3)	▼
Boeing	(3.2)	18.2	33.1	▼
EADS	(4.7)	15.1	14.4	▼
Embraer	12.2	(9.9)	15.9	Δ
General Dynamics	(5.8)	(11.2)	(9.7)	▼
Textron	(13.5)	(0.6)	5.0	▼
United Technologies	0.2	1.8	9.4	Δ

N.A. MAINLINE	1-M (%)	YTD (%)	1-YR (%)	TREND
Air Canada	7.5	1.0	13.6	Δ
AMR	23.5	(26.6)	(16.7)	Δ
Delta	9.6	1.9	16.7	Δ
United	15.5	37.4	61.9	Δ

N.A. REGIONAL	1-M (%)	YTD (%)	1-YR (%)	TREND
Alaska	10.3	(7.6)	10.1	Δ
Allegiant	1.6	(21.4)	(6.1)	Δ
Chorus Aviation	(3.3)	(30.2)	(30.9)	▼
JetBlue	12.2	(17.9)	(6.5)	Δ
SkyWest	7.8	2.5	14.2	Δ
Southwest	(7.8)	(19.2)	(1.6)	▼
Westjet	2.0	(29.8)	(28.0)	Δ

INTL. AIRLINES	1-M (%)	YTD (%)	1-YR (%)	TREND
Lufthansa	6.6	(33.4)	(25.4)	Δ
Air France/KLM	19.9	(27.4)	(9.8)	Δ
BA/Iberia	10.8	(0.3)	10.1	Δ
Cathay Pacific	(13.9)	1.6	(4.6)	▼
Air China	17.6	(18.9)	(0.5)	Δ
China Eastern	18.1	(12.3)	22.7	Δ
China Southern	24.7	(35.6)	(15.6)	Δ
Singapore Airlines	2.3	(11.8)	(12.0)	Δ
Qantas	7.9	14.3	(2.5)	Δ

Source: Bloomberg



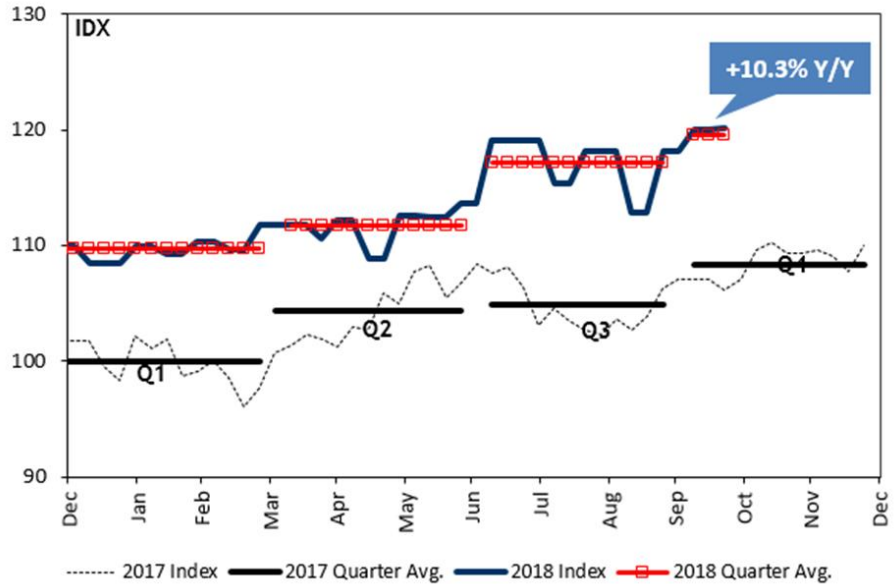
RBC Fare Survey

We present below the results of our RBC Fare Tracker. This proprietary algorithm provides investors a unique snapshot of Air Canada and WestJet’s ticket pricing strategies ... and a window into yield growth trends *before* they are announced.

Air Canada

According to the RBC Fare tracker, fares at Air Canada are tracking strong so far in Q4, up 10.3% Y/Y. Additionally, Q4 of 2017 was itself a strong quarter, which makes the current all the more impressive.

Looking at segments, the majority of the fare increases came from the Transborder segment, with the International and Vacation segments flat, and the Domestic segment slightly negative.

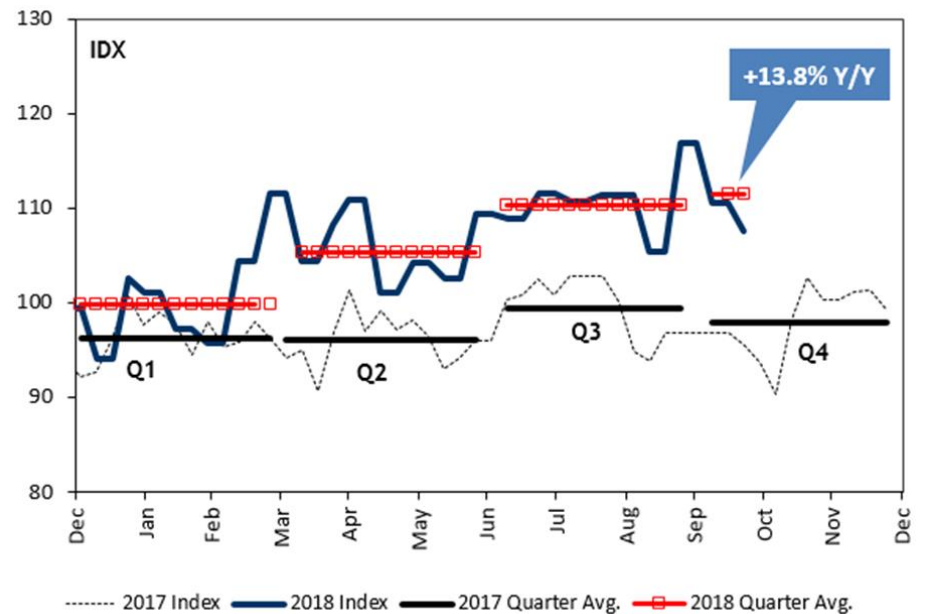


Sources: RBC Capital Markets estimates, Company websites

WestJet

According to the RBC fare tracker, fares at WestJet are trending up 13.8% Y/Y on a QTD basis (albeit Q4 in 2017 was a weak quarter for them).

On a monthly basis however, fares were more than 8% lower. Most of the late summer price increases seem to be removed. Weakness was felt across all segments – but was more pronounced in the Domestic segment.



Sources: RBC Capital Markets estimates, Company websites

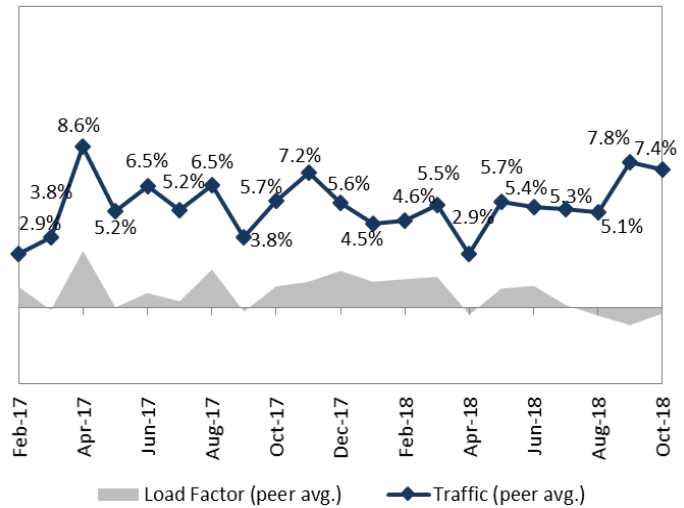


The Load Factor

Industry trends

On average, the peer group reported 7.4% traffic growth in October. This was slightly below the average capacity growth of 7.2%, leading to a decrease in the load factor by 0.2%.

This is the third consecutive month of a decreasing load factor, mainly caused by a run up in capacity towards the second half of the year. We are however, expecting capacity to moderate as airlines remove unprofitable routes and try to manage costs.

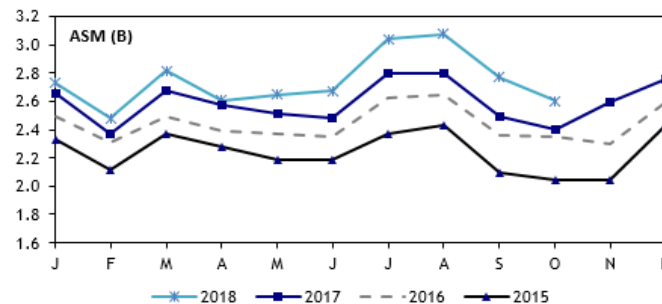
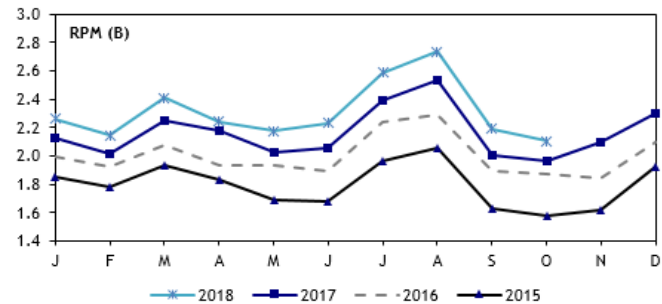


Sources: Company websites, RBC Capital Markets estimates

WestJet

WestJet reported positive traffic growth in October, up 7.4%, which was above our estimate of 5.0%. This came on the back of capacity growth of 8.5% (higher than our 5.5% estimate), which led to a system load factor of 80.9% (down 0.8 bps Y/Y).

We expected the ramp up in capacity as WJA provided this guidance. Similarly, we will be watching for a reduction in the coming months.



	October			YTD		
	2018	2017	Δ	2018	2017	Δ
RPMs (B)	2.105	1.960	+7.4%	23.077	21.535	+7.2%
ASMs (B)	2.602	2.398	+8.5%	27.433	25.738	+6.6%
Load Factor	80.9%	81.7%	-0.8 pts	84.1%	83.7%	0.4 pts

Metrics

Traffic: Revenue Passenger Miles = RPMs (billions)
 Capacity: Available Seat Miles = ASMs (billions)
 Utilization: Load Factor = RPMs / ASMs

Sources: Company websites, RBC Capital Markets estimate



Air Buzz

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

Bombardier

Narrow-bodies

- **Bombardier/Airbus deliver first 'CSeries' jet to Delta Airlines.** Bombardier/Airbus delivered the first of 75 planes on Friday in the culmination of a deal that sparked an international trade complaint and a short-lived tariff. Delta first ordered the planes from Bombardier years ago, but in 2016 Boeing, which had not participated in the bidding process to sell planes to Delta, filed a complaint with U.S. trade officials. The U.S. Commerce Department then imposed tariffs of nearly 300 percent on the CSeries -- a decision that was struck down a few months later by the U.S. International Trade Commission. (CTV, October 26)

Regional Jets

- **Bombardier to sell Q400 Program.** Canadian aircraft manufacturer Bombardier has announced the sale of its Dash 8 turboprop program to Viking Air, a subsidiary of Longview Aviation Capital Corporation, for \$300 million. Bombardier says the sale includes the Q400 program as well as all assets and intellectual property for other Dash 8 models including the -100, -200, and -300. Bombardier also adds that the transaction will close by the second half of next year. Upon the deal's completion, Longview will be the largest turboprop manufacturer in North America alongside its production of the DHC-6 Twin Otter Series, the DHC-2T Turbo Beaver, and the CL-415 Enhance Aerial Firefighter. (Aeronautics online, November 10, 2018)

Business Jets

- **Bombardier Global 7500 secures US certification.** Bombardier has secured US type certification for the Global 7500, and is preparing the ultra-long-range business jet for service entry before year-end. The approval comes six weeks after the company's flagship received Canadian approval, capping a two-year flight-test campaign that saw over 2,700h logged by five aircraft. The GE Aviation Passport-powered aircraft was launched in 2010 as the Global 7000. It was rebranded in May to reflect a 300nm (560km) jump in maximum operating range during flight testing to 7,700nm. (Flight Global, November 8, 2018)
- **Netjets confirms Global 7500 delivery schedule.** NetJets (Booth 209) has confirmed the schedule for its Bombardier Global 7500 deliveries, set to begin in 2021. The fractional-ownership pioneer also converted options on five Challenger 350s and one Global 6000 to firm orders, with deliveries to start next year. The value of the conversions, based on 2018 prices, is \$195 million. NetJets placed a major order for Bombardier business jets in 2011 that included firm commitments for 50 Globals, with options for 70 more. (AIN online, October 16, 2018).

CAE

Civil

- **CAE releases first Business Jet Pilot Demand Outlook:** CAE released its 2018 CAE Airline and Business Jet Pilot Demand Outlook offering insights on the future need for pilots in both business and commercial aviation, while building on key market drivers and trends. CAE forecasts a total of 65,000 active business jet pilots by 2028 (up from 55,000 currently), with demand for 50,000 new pilots during that period. The outlook also projects the business aviation sector active fleet size growing at a 2% CAGR through 2028. (CAE – October 16, 2018)



- **FlightSafety announces new Co-CEOs:** David Davenport and Ray Johns were named as the company's new Co-CEOs following the passing of Bruce Whitman. Whitman, who was promoted to CEO in 2003, had been with FlightSafety for 47 years. Davenport will oversee FlightSafety's business and commercial aircraft training, while Johns will remain in charge of government and military-related training services and products. (The Journal for Civil Aviation Training – October 15, 2018)

Military

- **Boeing provides Saab with order for T-X aircraft program:** Saab received an order from Boeing for the Engineering and Manufacturing Development (EMD) phase of the T-X Advanced Pilot Training Aircraft. The program (which has multiple phases) is for the first phase. The order value was for ~US\$118M, and will run until 2022. During the EMD stage, Saab and Boeing will industrialize the T-X aircraft with the US Air Force. The US Air Force selected Saab and Boeing for the T-X program in September 2018. (Saab Group – October 18, 2018)
- **CAE launches CAE Medallion MR e-Series Visual System:** CAE announced the launch of the CAE Medallion MR e-Series Visual System, a complete and turnkey visual solution designed for fighter and fast-jet training. This new visual system is a cost-effective, fully-integrated visual solution that includes a 360-degree dome display system, laser projectors and proprietary image generators. The CAE Medallion MR e-Series Visual System offers a comprehensive solution for a range of fighter and fast-jet training tasks, including formation and low-level flying, in-air refueling and target identification. (CAE – October 23, 2018)



Appendix 1: Comparables

Symbol	13-Nov-18 Price	EV/EBITDAR				EV/Sales				EBITDAR Margin				Net Debt to EBITDAR	EV (MM)		
		2017	2018E	2019E	2020E	2017	2018E	2019E	2020E	2017	2018E	2019E	2020E				
Discount Airlines																	
WestJet	WJA-CA	C\$	\$18.44	3.9x	5.5x	4.8x	4.4x	0.9x	0.8x	0.8x	0.7x	22%	15%	16%	16%	2.2x	3,912
Southwest	LUV-US	US\$	\$52.73	6.3x	6.8x	6.3x	5.9x	1.5x	1.4x	1.3x	1.2x	23%	21%	21%	21%	0.2x	30,718
JetBlue	JBLU-US	US\$	\$18.21	4.7x	5.8x	5.3x	4.3x	1.0x	1.0x	0.9x	0.8x	22%	16%	17%	19%	1.3x	7,309
Discount Average				5.0x	6.0x	5.5x	4.9x	1.1x	1.1x	1.0x	0.9x	22%	17%	18%	19%	0.7x	
Mainline Airlines																	
Air Canada	AC-CA	C\$	\$26.99	4.6x	4.8x	4.0x	3.6x	0.8x	0.7x	0.7x	0.7x	18%	15%	17%	19%	1.7x	13,396
Delta Air Lines	DAL-US	US\$	\$56.82	5.7x	6.1x	5.6x	5.3x	1.2x	1.1x	1.0x	1.0x	21%	18%	19%	19%	1.1x	48,793
United Continental	UAL-US	US\$	\$92.60	6.1x	6.1x	5.6x	5.1x	1.0x	0.9x	0.9x	0.8x	17%	16%	16%	17%	2.0x	39,022
American Airlines	AAL-US	US\$	\$37.78	5.8x	7.1x	6.5x	6.1x	1.1x	1.0x	1.0x	0.9x	19%	14%	15%	15%	4.0x	45,538
Mainline Average				5.5x	6.0x	5.4x	5.0x	1.0x	1.0x	0.9x	0.9x	19%	16%	17%	17%	2.4x	
Regional Airlines																	
Chorus Aviation	CHR-CA	C\$	\$7.34	8.5x	7.4x	6.2x	6.0x	0.7x	0.6x	0.6x	1.9x	8%	8%	9%	32%	4.3x	2,752
SkyWest Inc.	SKYW-US	US\$	\$54.92	6.1x	7.3x	7.3x	7.3x	2.1x	2.1x	2.0x	2.0x	35%	29%	28%	28%	4.2x	6,765
Regional Average				7.3x	7.3x	6.7x	6.6x	1.4x	1.4x	1.3x	1.9x	21%	19%	19%	30%	4.3x	
Airline Average				5.7x	6.3x	5.7x	5.3x	1.1x	1.1x	1.0x	1.1x	20%	17%	17%	20%	2.3x	

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at market close on November 13, 2018



Appendix 2: AC Model

AIR CANADA (TSX: AC/B, TSX: AC/A)													
FY Dec 31	2016	2017A	Q1/18	Q2/18	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	2020E
Traffic / RPM (MMs)	76,481	85,137	20,440	22,654	28,465	20,560	92,119	21,462	23,787	29,888	21,588	96,725	99,143
% change	13.2%	11.3%	11.4%	8.2%	7.5%	6.0%	8.2%	5.0%	5.0%	5.0%	5.0%	5.0%	2.5%
Capacity / ASM (MMs)	92,726	103,492	24,862	27,269	33,137	25,449	110,717	26,105	28,632	34,794	26,721	116,253	119,740
% change	14.7%	11.6%	8.6%	7.5%	6.7%	5.2%	7.0%	5.0%	5.0%	5.0%	5.0%	5.0%	3.0%
Load Factor (%)	82.5%	82.3%	82.2%	83.1%	85.9%	80.8%	83.2%	82.2%	83.1%	85.9%	80.8%	83.2%	82.8%
change (% pts)	-1.0%	-0.2%	2.1%	0.5%	0.6%	0.6%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.4%
Yield (\$)	0.169	0.170	0.171	0.173	0.177	0.180	0.175	0.176	0.179	0.181	0.184	0.180	0.183
% change	-6.4%	0.8%	0.4%	2.0%	3.4%	5.1%	2.7%	3.0%	3.0%	2.5%	2.5%	2.7%	2.0%
RASM (Rev per unit of capacity, cents)	14.2	14.0	14.0	14.4	15.1	14.5	14.6	14.5	14.8	15.5	14.9	15.0	15.2
CASM (excl. fuel) (cents)	11.5	11.1	12.7	11.0	9.7	11.8	11.2	12.4	11.1	10.1	11.8	11.3	11.4
Total Revenues	14,677	16,252	4,071	4,333	5,415	4,157	17,976	4,367	4,669	5,812	4,448	19,296	20,126
Wages, salaries and benefits	2510	2671	700	711	743	708	2862	735	747	781	744	3007	3159
% Sales	17.1%	16.4%	17.2%	16.4%	13.7%	17.0%	15.9%	16.8%	16.0%	13.4%	16.7%	15.6%	15.7%
Aircraft Fuel - total	2606	3339	939	1099	1371	1084	4493	1113	1134	1368	1049	4665	4642
% Sales	17.8%	20.5%	23.1%	25.4%	25.3%	26.1%	25.0%	25.5%	24.3%	23.5%	23.6%	24.2%	23.1%
Sales and distribution costs	703	770	189	199	237	178	803	198	209	249	187	843	869
% Sales	4.8%	4.7%	4.6%	4.6%	4.4%	4.3%	4.5%	4.5%	4.5%	4.3%	4.2%	4.4%	4.3%
Food, beverages, supplies	349	383	96	108	125	99	428	101	113	131	104	450	463
% Sales	2.4%	2.4%	2.4%	2.5%	2.3%	2.4%	2.4%	2.3%	2.4%	2.3%	2.3%	2.3%	2.3%
Aircraft maintenance	883	938	256	220	277	280	1033	265	228	287	290	1069	1123
% Sales	6.0%	5.8%	6.3%	5.1%	5.1%	6.7%	5.7%	6.1%	4.9%	4.9%	6.5%	5.5%	5.6%
Airport and navigation fees	859	905	221	237	281	211	950	232	249	295	222	998	1028
% Sales	5.9%	5.6%	5.4%	5.5%	5.2%	5.1%	5.3%	5.3%	5.3%	5.1%	5.0%	5.2%	5.1%
Communications and information technology	242	254	79	67	79	76	301	83	70	83	80	316	314
% Sales	1.6%	1.6%	1.9%	1.5%	1.5%	1.8%	1.7%	1.9%	1.5%	1.4%	1.8%	1.6%	1.6%
Other	3268	3526	918	932	951	956	3757	931	1007	1053	979	3970	4140
% Sales	22.3%	21.7%	22.5%	21.5%	17.6%	23.0%	20.9%	21.3%	21.6%	18.1%	22.0%	20.6%	20.6%
Regional airline expense (ex fuel and DAR)	2027	2137	542	588	548	582	2260	581	634	588	623	2426	2530
% Sales	13.8%	13.1%	13.3%	13.6%	10.1%	14.0%	12.6%	13.3%	13.6%	10.1%	14.0%	12.6%	12.6%
Total Operating Costs	11,420	12,786	3,398	3,573	4,064	3,592	14,627	3,658	3,758	4,247	3,655	15,317	15,737
EBITDAR	2,768	2,928	397	646	1,265	456	2,764	425	794	1,477	681	3,376	3,768
% of sales	18.9%	18.0%	9.8%	14.9%	23.4%	11.0%	15.4%	9.7%	17.0%	25.4%	15.3%	17.5%	18.7%
EPS (F.D) (\$) (Exc. Special charges)	\$ 4.11	\$ 4.05	\$ (0.19)	\$ 0.41	\$ 2.03	\$ 0.21	\$ 2.46	\$ (0.12)	\$ 0.77	\$ 2.29	\$ 0.60	\$ 3.54	\$ 4.48

Source: RBC CM estimates, Company reports



Appendix 3: WJA Model

AIR CANADA (TSX: AC/B, TSX: AC/A)													
FY Dec 31	2016	2017A	Q1/18	Q2/18	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	2020E
Traffic / RPM (MMs)	76,481	85,137	20,440	22,654	28,465	20,560	92,119	21,462	23,787	29,888	21,588	96,725	99,143
% change	13.2%	11.3%	11.4%	8.2%	7.5%	6.0%	8.2%	5.0%	5.0%	5.0%	5.0%	5.0%	2.5%
Capacity / ASM (MMs)	92,726	103,492	24,862	27,269	33,137	25,449	110,717	26,105	28,632	34,794	26,721	116,253	119,740
% change	14.7%	11.6%	8.6%	7.5%	6.7%	5.2%	7.0%	5.0%	5.0%	5.0%	5.0%	5.0%	3.0%
Load Factor (%)	82.5%	82.3%	82.2%	83.1%	85.9%	80.8%	83.2%	82.2%	83.1%	85.9%	80.8%	83.2%	82.8%
change (% pts)	-1.0%	-0.2%	2.1%	0.5%	0.6%	0.6%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.4%
Yield (\$)	0.169	0.170	0.171	0.173	0.177	0.180	0.175	0.176	0.179	0.181	0.184	0.180	0.183
% change	-6.4%	0.8%	0.4%	2.0%	3.4%	5.1%	2.7%	3.0%	3.0%	2.5%	2.5%	2.7%	2.0%
RASM (Rev per unit of capacity, cents)	14.2	14.0	14.0	14.4	15.1	14.5	14.6	14.5	14.8	15.5	14.9	15.0	15.2
CASM (excl. fuel) (cents)	11.5	11.1	12.7	11.0	9.7	11.8	11.2	12.4	11.1	10.1	11.8	11.3	11.4
Total Revenues	14,677	16,252	4,071	4,333	5,415	4,157	17,976	4,367	4,669	5,812	4,448	19,296	20,126
Wages, salaries and benefits	2510	2671	700	711	743	708	2862	735	747	781	744	3007	3159
% Sales	17.1%	16.4%	17.2%	16.4%	13.7%	17.0%	15.9%	16.8%	16.0%	13.4%	16.7%	15.6%	15.7%
Aircraft Fuel - total	2606	3339	939	1099	1371	1084	4493	1113	1134	1368	1049	4665	4642
% Sales	17.8%	20.5%	23.1%	25.4%	25.3%	26.1%	25.0%	25.5%	24.3%	23.5%	23.6%	24.2%	23.1%
Sales and distribution costs	703	770	189	199	237	178	803	198	209	249	187	843	869
% Sales	4.8%	4.7%	4.6%	4.6%	4.4%	4.3%	4.5%	4.5%	4.5%	4.3%	4.2%	4.4%	4.3%
Food, beverages, supplies	349	383	96	108	125	99	428	101	113	131	104	450	463
% Sales	2.4%	2.4%	2.4%	2.5%	2.3%	2.4%	2.4%	2.3%	2.4%	2.3%	2.3%	2.3%	2.3%
Aircraft maintenance	883	938	256	220	277	280	1033	265	228	287	290	1069	1123
% Sales	6.0%	5.8%	6.3%	5.1%	5.1%	6.7%	5.7%	6.1%	4.9%	4.9%	6.5%	5.5%	5.6%
Airport and navigation fees	859	905	221	237	281	211	950	232	249	295	222	998	1028
% Sales	5.9%	5.6%	5.4%	5.5%	5.2%	5.1%	5.3%	5.3%	5.3%	5.1%	5.0%	5.2%	5.1%
Communications and information technology	242	254	79	67	79	76	301	83	70	83	80	316	314
% Sales	1.6%	1.6%	1.9%	1.5%	1.5%	1.8%	1.7%	1.9%	1.5%	1.4%	1.8%	1.6%	1.6%
Other	3268	3526	918	932	951	956	3757	931	1007	1053	979	3970	4140
% Sales	22.3%	21.7%	22.5%	21.5%	17.6%	23.0%	20.9%	21.3%	21.6%	18.1%	22.0%	20.6%	20.6%
Regional airline expense (ex fuel and DAR)	2027	2137	542	588	548	582	2260	581	634	588	623	2426	2530
% Sales	13.8%	13.1%	13.3%	13.6%	10.1%	14.0%	12.6%	13.3%	13.6%	10.1%	14.0%	12.6%	12.6%
Total Operating Costs	11,420	12,786	3,398	3,573	4,064	3,592	14,627	3,658	3,758	4,247	3,655	15,317	15,737
EBITDAR	2,768	2,928	397	646	1,265	456	2,764	425	794	1,477	681	3,376	3,768
% of sales	18.9%	18.0%	9.8%	14.9%	23.4%	11.0%	15.4%	9.7%	17.0%	25.4%	15.3%	17.5%	18.7%
EPS (F.D) (\$) (Exc. Special charges)	\$ 4.11	\$ 4.05	\$ (0.19)	\$ 0.41	\$ 2.03	\$ 0.21	\$ 2.46	\$ (0.12)	\$ 0.77	\$ 2.29	\$ 0.60	\$ 3.54	\$ 4.48

Source: RBC CM estimates, Company reports



Companies mentioned

Air Canada (TSX: AC CN; C\$26.63; Outperform; Speculative Risk)

Chorus Aviation Inc. (TSX: CHR CN; C\$6.56; Outperform)

WestJet Airlines Ltd. (TSX: WJA CN; C\$18.43; Sector Perform)

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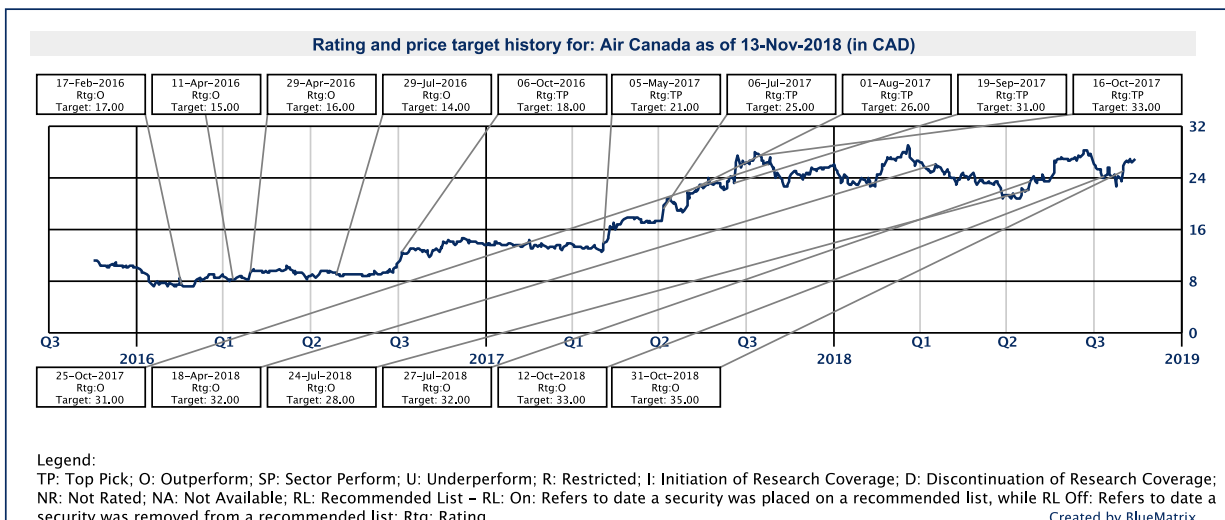
Risk Rating

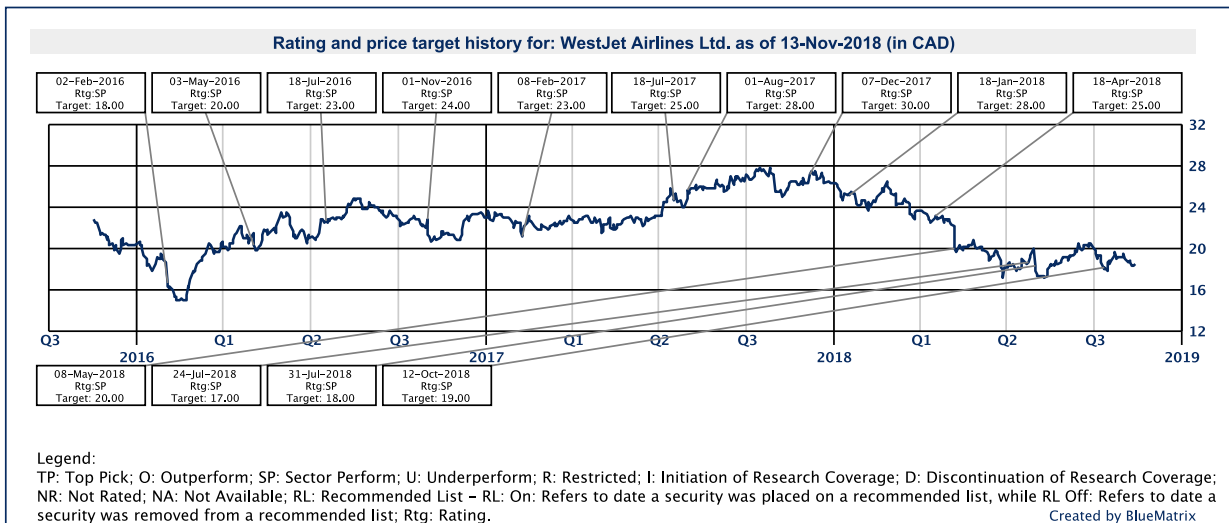
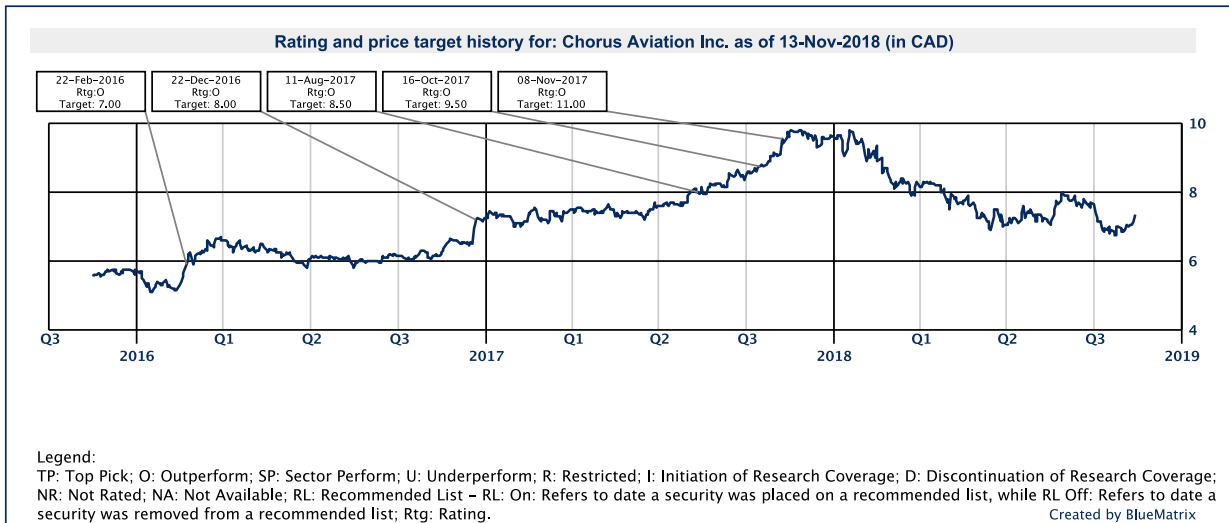
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Air Canada

Valuation

Our \$35.00 target price is based on a 4.1x EV/EBITDAR multiple applied to our 2020 estimates, which is a 0.8x 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 \$19 price target is based on an EV/EBITDAR approach whereby we apply a 4.5x multiple to our 2020 estimate and is the basis of our Sector Perform rating. Our target multiple is a slight discount to 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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