RBC Capital Markets

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RBC Flight Deck

RBC Fare Survey points to higher fares emerging again in 2019

Both AC and WJA post modest fare gains Y/Y. Our proprietary Fare Survey tracks price changes on selected routes to gauge the direction and magnitude of fare prices in the month. This data shows that overall fare prices rose modestly to begin the year. At the end of January, AC fares were 3.2% higher than last year, and WJA fares rose 5.3% from last year. We note both airlines are coming off a strong holiday season where fare prices reached record highs.

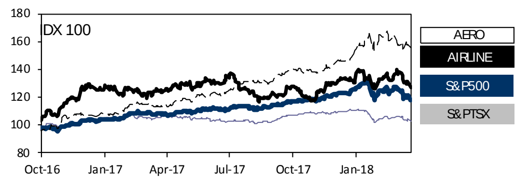
Domestic fares lead price gains. Both Air Canada and WestJet posted strong price gains across the domestic segments. This was partially offset by weakness in the Vacation and Transborder segments. For Air Canada, the International segment was mostly flat.

Traffic growth moderates in January. For the month of January, WJA reported traffic growth of 2.7% Y/Y (vs. RBC at 5.5%) on capacity growth of 5.4% (vs. RBC at 6.5%). Across the global peer group, traffic rose 4.8% Y/Y, with capacity growth of 5.0% Y/Y. This resulted in the fifth consecutive monthly decrease in the load factor for the global peers.

Focus on capacity growth in 2019. The January results were consistent with WJA management's comments during Investor Day, where it signaled capacity reductions as part of 2019 guidance. We expect Air Canada to announce a similar plan to moderate capacity this year (5% Y/Y vs 7.1% in 2018) when they provide 2019 guidance at the upcoming Investor day. This will be a tricky balancing act as both airlines are expanding international routes this year, but will be necessary to keep costs under control.

In this edition...

INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTSX	4.0	11.1	3.0	Δ
S&P 500	4.2	11.0	1.8	Δ
AMEX Airline	5.1	16.9	(9.7)	Δ
AMEX Aerospace	11.4	21.9	(1.9)	Δ



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	3.5	22.3	(1.1)	Δ
Jet Fuel	1.6	17.7	7.0	Δ
CAD/USD	(0.6)	(3.1)	5.2	▼
AEROSPACE				
Bombardier	27.9	32.3	(28.4)	Δ
Boeing	14.2	29.2	17.3	Δ
EADS	18.7	32.4	17.1	Δ
Embraer	(1.2)	(6.1)	(23.8)	▼
General Dynamics	3.8	11.3	(21.9)	Δ
Textron	10.5	18.7	(9.5)	Δ
United Technologies	12.8	20.6	(0.6)	Δ
N.A. MAINLINE				
Air Canada	18.1	28.7	35.6	Δ
AMR	5.4	11.5	(30.6)	Δ
Delta	8.3	4.4	(1.4)	Δ
United	4.6	6.9	34.6	Δ
N.A. REGIONAL				
Alaska	0.8	7.4	0.6	Δ
Allegiant	16.2	42.3	(14.6)	Δ
Chorus Aviation	11.3	34.2	(14.8)	Δ
JetBlue	2.0	11.8	(11.6)	Δ
SkyWest	14.3	27.4	0.1	Δ
Southwest	12.6	24.9	(0.4)	Δ
WestJet	12.2	18.3	(15.0)	Δ
INTL AIRLINES				
Lufthansa	7.3	13.6	(17.2)	Δ
Air France/KLM	6.9	9.4	3.6	Δ
BA/Iberia	4.1	4.2	4.5	Δ
Cathay Pacific	0.0	0.0	(1.6)	Δ
Air China	2.1	13.3	(30.2)	Δ
China Eastern	1.5	11.2	(21.5)	Δ
China Southern	1.6	14.6	(42.0)	Δ
Singapore Airlines	2.5	4.4	(12.2)	Δ
Qantas	(6.3)	(0.5)	9.3	▼

Source: Bloomberg

Priced as of prior trading day's market close, EST (unless otherwise noted).
Disseminated: Feb 20, 2019 00:45ET; Produced: Feb 19, 2019 17:39ET
All values in CAD unless otherwise noted.

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 10.

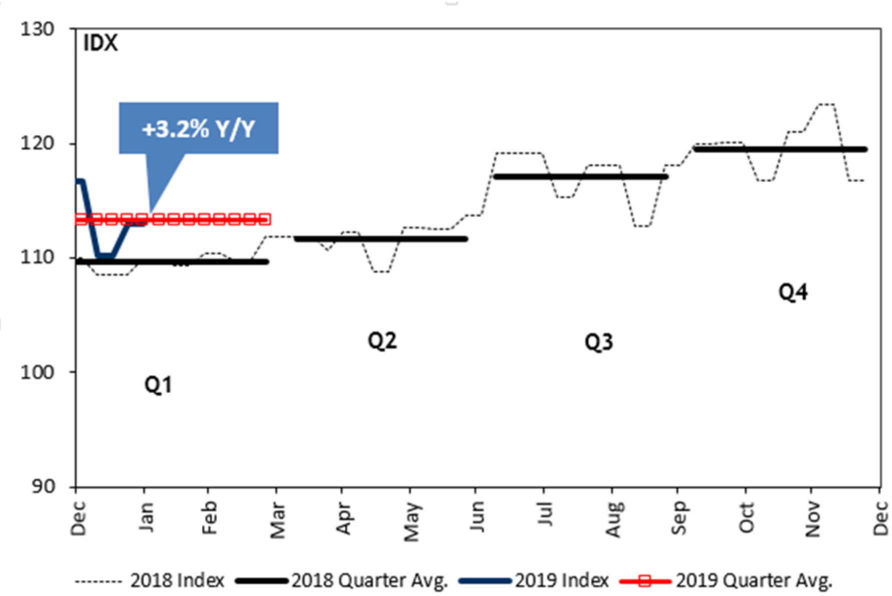
RBC Fare Survey

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, Air Canada fares are up 3.2% QTD from Q1 last year, which was itself a strong quarter.

Looking at segments, there was considerable weakness in the Vacation and Transborder segment. This was partially offset by strength in the domestic segment. The international segment was mostly flat during the month.

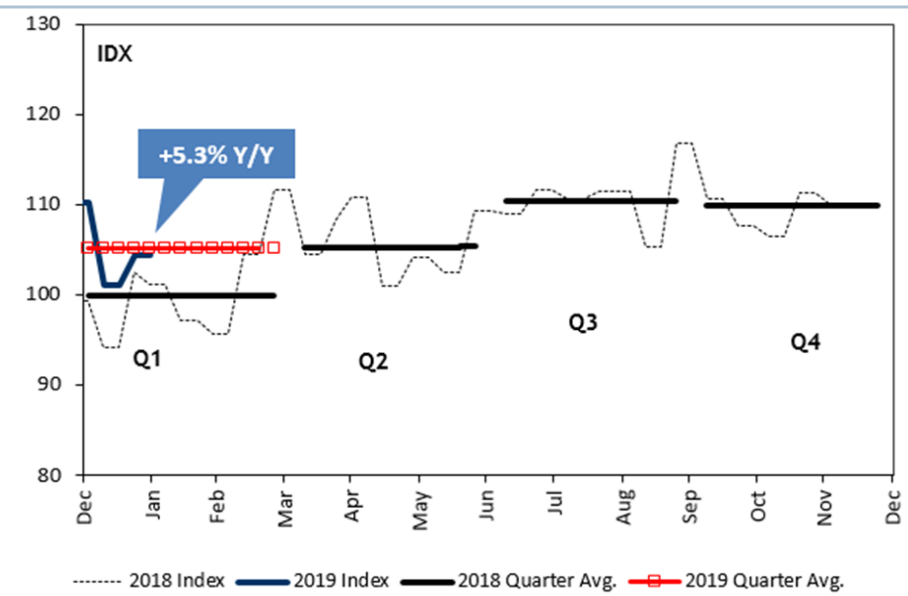


Sources: RBC Capital Markets estimates, Company websites

WestJet

According to the RBC fare tracker, fares at WestJet are trending up 5.3% Y/Y on a QTD basis (albeit Q1 in 2018 was a weak quarter for them).

On a segment basis, the results mirrored Air Canada. There was weakness in Vacation and Transborder fares, and the domestic segment was mostly flat.



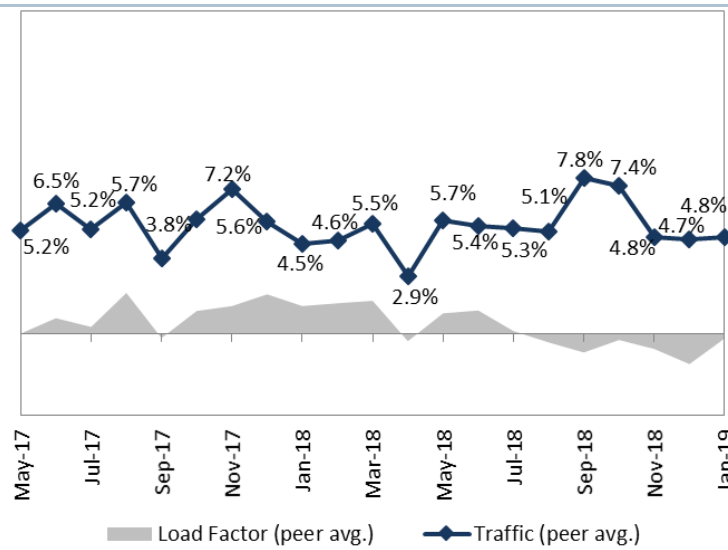
Sources: RBC Capital Markets estimates, Company websites

The Load Factor

Industry trends

On average, the peer group reported 4.8% traffic growth in January. This was slightly below the average capacity growth of 5.0%, leading to a decline in the load factor by 0.2%.

This is the fifth consecutive month of a decreasing load factor, mainly caused by a jump in capacity since the second half of the year. We are however, starting to see signs of moderating capacity, and expect the load factor to recover in the months to come.

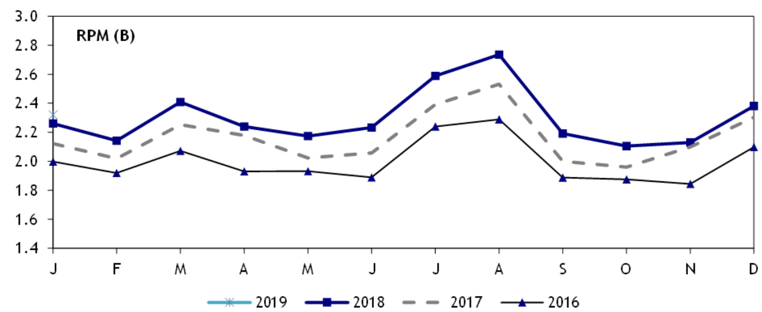


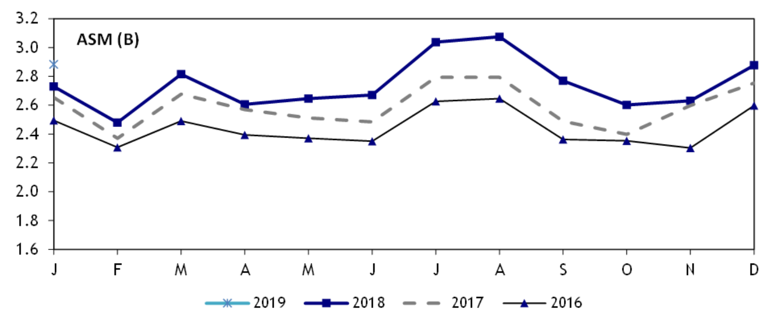
Sources: Company websites, RBC Capital Markets estimates

WestJet

WestJet reported modest traffic growth in November, up 2.7%, which was below our estimate of 5.5%. This came on the back of capacity growth of 5.4%, which was also below our estimate of 6.5%. This led to a system load factor of 80.5% (down 2.1 bps Y/Y).

The January data was consistent with management's comments during the Investor Day where it signaled capacity reductions as part of its 2019 guidance. The key for us is whether these moves are a part of management's strategic positioning relative to its competition, or if it is a signal of weakening demand. At this point, evidence suggests the former over the latter and therefore not in our view an immediate cause for concern.





	January			YTD		
	2019	2018	Δ	2019	2018	Δ
RPMs (B)	2.320	2.259	+2.7%	2.320	2.259	+2.7%
ASMs (B)	2.883	2.734	+5.4%	2.883	2.734	+5.4%
Load Factor	80.5%	82.6%	-2.1 pts	80.5%	82.6%	-2.1 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.

Bombardier

Narrow-bodies

- **Delta seizes opportunities with A220 introduction.** Nearly three years after ordering the A220-100, previously known as the Bombardier CS100, and nearly a year late - plus an extra week's delay for the US federal government shutdown - the Atlanta-based carrier placed the 109-seat aircraft in service between New York LaGuardia and both Boston and Dallas/Fort Worth on 7 February. Beginning with just three aircraft in service today, Delta plans to have 28 A220s by year-end flying routes from coast-to-coast. The A220 will allow Delta to upgauge more 76-seat regional jet flying to mainline aircraft, a move it began with the introduction of the 110-seat Boeing 717-200 in 2013, and likely replace some of the 717s down the road. (Flight Global, February 7, 2019).

Regional Jets

- **Bombardier's Global 7500 gets safety nod in Europe.** Bombardier checked off another key approval for its flagship Global 7500 with European Aviation Safety Agency (EASA) validation, the company recently announced. This nod clears the way for the aircraft to be registered in a European Union country, opening a major market for the 7,700-nautical-mile, four-zone business jet. EASA approval followed Transport Canada type certification in September and U.S. FAA approval in November. The aircraft officially entered service with the delivery on December 20, a little more than 24 months after the first flight of FTV1. The test program validated a 300-nautical-mile range extension, pushing it past rival Gulfstream's 7,500-nautical-mile G650ER. Bombardier, which said the Global 7500 now is selling into 2022, plans to deliver 15 to 20 of the aircraft this year, with the rate doubling to around 35 or 40 in 2020. (Business Jet Online, February 11, 2019)

- **Bombardier launches 50-seat CRJ700 derivative.** Bombardier has launched a new 50-seat variant of its CRJ series and recruited United Airlines as launch customer. Dubbed the CRJ550, the variant has a "new type certificate based on the CRJ700", Bombardier says. It adds that the new model will be the "first triple-class 50-seat aircraft" and have "ample onboard storage for carry-on bags and more passenger living space". Bombardier indicates that the aircraft will have no galley, featuring instead a "self-serve beverage and snack station", and will allow "elimination of gate check bags". Bombardier Commercial Aircraft president Fred Cromer describes the CRJ550 as the "only solution in North America that can replace the existing fleet of ageing 50-seaters". This, he adds, is "a market of over 700 aircraft. (Flight Global, February 6, 2019)

Business Jets

- **Bombardier acquires Global 7500 business jet wing program from Triumph.** Bombardier Inc. has signed a deal to acquire the Global 7500 wing manufacturing operations and assets from Triumph Group Inc. The company said the acquisition of the program for a nominal cash consideration is expected to close in the first quarter of 2019. The company says the acquisition will strengthen its position as an aerostructures manufacturer and secure the production ramp-up and long-term success of the jet. The operations will be incorporated into Bombardier's aerostructures and engineering services segment. Bombardier will enter into a lease agreement for Triumph's facility in

Red Oak, Texas, and continue to operate the production line with the employees currently working on the program. (The Canadian Press, January 24, 2019)

Appendix 1: Comparables

	Symbol		19-Feb-19 Price	EV/EBITDAR 2017	EV/EBITDAR 2018E	EV/EBITDAR 2019E	EV/EBITDAR 2020E	EV/Sales 2017	EV/Sales 2018E	EV/Sales 2019E	EV/Sales 2020E	EBITDAR Margin 2017	EBITDAR Margin 2018E	EBITDAR Margin 2019E	EBITDAR Margin 2020E	Net Debt to EBITDAR	EV (MM)
Discount Airlines																	
WestJet	WJA-CA	C$	$21.20	4.1x	5.7x	4.7x	4.3x	0.9x	0.9x	0.8x	0.7x	22%	15%	17%	17%	1.9x	4,132
Southwest	LUV-US	US$	$58.05	6.8x	7.3x	6.3x	6.1x	1.6x	1.5x	1.4x	1.3x	23%	21%	22%	22%	0.2x	32,947
JetBlue	JBLU-US	US$	$17.91	4.6x	5.5x	4.6x	4.2x	1.0x	0.9x	0.9x	0.8x	22%	17%	19%	19%	1.1x	7,237
Discount Average				**5.2x**	**6.1x**	**5.2x**	**4.9x**	**1.2x**	**1.1x**	**1.0x**	**1.0x**	**22%**	**18%**	**20%**	**19%**	**0.6x**	
Mainline Airlines																	
Air Canada	AC-CA	C$	$33.47	5.0x	5.1x	3.9x	3.7x	0.9x	0.8x	0.8x	0.7x	18%	16%	20%	20%	1.5x	14,608
Delta Air Lines	DAL-US	US$	$52.06	5.4x	5.7x	5.0x	5.0x	1.1x	1.0x	1.0x	1.0x	21%	18%	20%	19%	1.2x	46,454
United Continental	UAL-US	US$	$89.45	6.1x	5.9x	5.3x	5.1x	1.0x	0.9x	0.9x	0.8x	17%	16%	17%	16%	1.9x	38,181
American Airlines	AAL-US	US$	$35.86	6.9x	8.4x	7.1x	7.2x	1.3x	1.2x	1.2x	1.1x	19%	15%	16%	16%	5.0x	54,268
Mainline Average				**5.9x**	**6.3x**	**5.3x**	**5.2x**	**1.1x**	**1.0x**	**1.0x**	**0.9x**	**18%**	**16%**	**18%**	**18%**	**2.7x**	
Regional Airlines																	
Chorus Aviation	CHR-CA	C$	$7.55	9.5x	8.2x	7.1x	6.3x	2.4x	2.3x	2.1x	1.9x	25%	28%	29%	30%	4.4x	3,083
SkyWest Inc.	SKYW-US	US$	$56.65	6.2x	7.5x	7.5x	7.5x	2.0x	2.0x	2.3x	2.3x	33%	27%	31%	31%	4.1x	6,495
Regional Average				**7.8x**	**7.9x**	**7.3x**	**6.9x**	**2.2x**	**2.1x**	**2.2x**	**2.1x**	**29%**	**27%**	**30%**	**30%**	**4.2x**	
Airline Average				**6.1x**	**6.6x**	**5.7x**	**5.5x**	**1.4x**	**1.3x**	**1.2x**	**1.2x**	**22%**	**19%**	**21%**	**21%**	**2.4x**	

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at 2pm on February 19, 2019

Appendix 2: AC Model

FY Dec 31	2017A	Q1/18	Q2/18	Q3/18	Q4/18	2018	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	2020E
Traffic / RPM (MMs)	85,137	20,440	22,654	28,465	20,793	92,352	21,462	23,787	29,888	21,833	96,970	99,394
% change	11.3%	11.4%	8.2%	7.5%	7.2%	8.5%	5.0%	5.0%	5.0%	5.0%	5.0%	2.5%
Capacity / ASM (MMs)	103,492	24,862	27,269	33,137	25,594	110,862	26,105	28,632	34,794	26,874	116,405	119,897
% change	11.6%	8.6%	7.5%	6.7%	5.8%	7.1%	5.0%	5.0%	5.0%	5.0%	5.0%	3.0%
Load Factor (%)	82.3%	82.2%	83.1%	85.9%	81.2%	83.3%	82.2%	83.1%	85.9%	81.2%	83.3%	82.9%
change (% pts)	-0.2%	2.1%	0.5%	0.6%	1.1%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.4%
Yield ($)	0.170	0.171	0.173	0.177	0.177	0.175	0.176	0.179	0.182	0.183	0.180	0.183
% change	0.8%	0.4%	2.0%	3.4%	3.8%	2.4%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%
RASM (Rev per unit of capacity, cents)	14.1	14.0	14.4	15.1	14.8	14.6	14.5	14.8	15.6	14.8	15.0	15.2
CASM (excl. fuel) (cents)	11.1	12.7	11.0	9.7	11.9	11.2	12.6	11.0	9.9	11.5	11.2	11.3
Total Revenues	**16,252**	**4,071**	**4,333**	**5,415**	**4,246**	**18,065**	**4,367**	**4,669**	**5,838**	**4,450**	**19,324**	**20,156**
Wages, salaries and benefits	2671	700	711	743	719	2873	735	747	728	755	2966	3116
% Sales	16.4%	17.2%	16.4%	13.7%	16.9%	15.9%	16.8%	16.0%	12.5%	17.0%	15.3%	15.5%
Aircraft Fuel - total	3339	939	1099	1371	1091	4500	1066	1164	1417	1112	4760	4878
% Sales	20.5%	23.1%	25.4%	25.3%	25.7%	24.9%	24.4%	24.9%	24.3%	25.0%	24.6%	24.2%
Sales and distribution costs	770	189	199	237	182	807	198	209	249	191	847	873
% Sales	4.7%	4.6%	4.6%	4.4%	4.3%	4.5%	4.5%	4.5%	4.3%	4.3%	4.4%	4.3%
Food, beverages, supplies	383	96	108	125	104	433	101	113	131	109	455	468
% Sales	2.4%	2.4%	2.5%	2.3%	2.4%	2.4%	2.3%	2.4%	2.2%	2.5%	2.4%	2.3%
Aircraft maintenance	938	256	220	277	250	1003	256	220	277	230	983	1032
% Sales	5.8%	6.3%	5.1%	5.1%	5.9%	5.6%	5.9%	4.7%	4.7%	5.2%	5.1%	5.1%
Airport and navigation fees	905	221	237	281	225	964	227	243	289	231	990	1020
% Sales	5.6%	5.4%	5.5%	5.2%	5.3%	5.3%	5.2%	5.2%	4.9%	5.2%	5.1%	5.1%
Communications and information tech	254	79	67	79	69	294	83	70	83	72	309	306
% Sales	1.6%	1.9%	1.5%	1.5%	1.6%	1.6%	1.9%	1.5%	1.4%	1.6%	1.6%	1.5%
Other	3526	918	932	951	937	3738	969	966	1004	926	3866	4032
% Sales	21.7%	22.5%	21.5%	17.6%	22.1%	20.7%	22.2%	20.7%	17.2%	20.8%	20.0%	20.0%
Regional airline expense (ex fuel and D	2137	542	588	548	554	2232	576	616	596	570	2358	2459
% Sales	13.1%	13.3%	13.6%	10.1%	13.0%	12.4%	13.2%	13.2%	10.2%	12.8%	12.2%	12.2%
Total Operating Costs	**12,786**	**3,398**	**3,573**	**4,064**	**3,577**	**14,612**	**3,636**	**3,734**	**4,179**	**3,627**	**15,176**	**15,725**
EBITDAR	**2,928**	**397**	**646**	**1,265**	**543**	**2,851**	**447**	**818**	**1,571**	**693**	**3,529**	**3,792**
% of sales	18.0%	9.8%	14.9%	23.4%	12.8%	15.8%	10.2%	17.5%	26.9%	15.6%	18.3%	18.8%
EPS (F.D) ($) (Exc. Special charges)	**$ 4.05**	**$ (0.19)**	**$ 0.41**	**$ 2.03**	**$ 0.20**	**$ 2.46**	**$ (0.15)**	**$ 0.74**	**$ 2.43**	**$ 0.56**	**$ 3.58**	**$ 4.15**

Source: RBC CM estimates, Company reports

Appendix 3: WJA Model

FY Dec. 31 ($MM's)	2017	Q1/18	Q2/18	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	Q1/20E	Q2/20E	Q3/20E	Q4/20E	2020E
Traffic (RPMs in MM)	25,904	6,810	6,645	7,517	6,615	27,586	7,198	7,078	8,080	7,079	29,434	7,665	7,538	8,605	7,539	31,348
% change	8.1%	6.5%	6.1%	8.6%	4.5%	6.5%	5.7%	6.5%	7.5%	7.0%	6.7%	6.5%	6.5%	6.5%	6.5%	6.5%
Capacity (ASMs in MM)	30,998	8,029	7,922	8,880	8,109	32,940	8,547	8,477	9,546	8,717	35,286	9,145	9,070	10,214	9,327	37,756
% change	5.8%	4.3%	4.7%	10.0%	5.9%	6.3%	6.4%	7.0%	7.5%	7.5%	7.1%	7.0%	7.0%	7.0%	7.0%	7.0%
Load Factor in (%)	83.6%	84.8%	83.9%	84.6%	81.6%	83.7%	84.2%	83.5%	84.6%	81.2%	83.4%	83.8%	83.1%	84.2%	80.8%	83.0%
change (%pts)	1.8%	1.8%	1.1%	-1.1%	-1.1%	0.2%	-0.6%	-0.4%	0.0%	-0.4%	-0.3%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%
Yield (cents per RPM)	17.40	17.50	16.36	16.78	18.04	17.16	17.83	16.69	17.12	18.40	17.50	18.10	16.94	17.37	18.68	17.76
% change	1.1%	0.3%	-3.2%	-4.4%	2.2%	-1.4%	1.9%	2.0%	2.0%	2.0%	2.0%	1.5%	1.5%	1.5%	1.5%	1.5%
RASM (Revenue per unit of capacity, cents)	14.5	14.8	13.7	14.2	14.7	14.4	15.0	13.9	14.5	14.9	14.6	15.2	14.1	14.6	15.1	14.7
CASM (excl. fuel) (cents)	10.1	10.6	10.3	9.5	10.3	10.2	10.8	10.3	9.7	10.5	10.3	11.0	10.5	9.9	10.4	10.4
Total Revenues	**4,506.7**	**1,191.7**	**1,087.6**	**1,260.9**	**1,193.3**	**4,733.5**	**1,283.5**	**1,181.4**	**1,382.9**	**1,302.6**	**5,150.4**	**1,387.5**	**1,277.1**	**1,494.9**	**1,408.1**	**5,567.5**
% change	*9.3%*	*6.9%*	*2.8%*	*3.8%*	*6.6%*	*5.0%*	*7.7%*	*8.6%*	*9.7%*	*9.2%*	*8.8%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*
Airport Operations	609.3	172.9	161.8	139.8	168.1	642.6	184.1	166.5	144.5	180.7	675.8	197.0	178.2	154.7	193.3	723.1
% change	5%	2%	5%	10%	6%	5%	6%	3%	3%	7%	5%	7%	7%	7%	7%	7%
Aircraft Fuel	950.0	281.2	302.3	343.3	304.9	1231.6	299.7	298.8	332.1	308.6	1239.2	329.1	322.2	354.0	327.2	1332.5
% change	24%	19%	34%	44%	21%	30%	7%	-1%	-3%	1%	1%	10%	8%	7%	6%	8%
Maintenance	242.6	63.4	59.4	72.3	61.7	256.7	67.5	61.1	74.7	66.3	269.6	72.3	65.4	80.0	70.9	288.5
% change	5%	2%	5%	10%	6%	6%	6%	3%	3%	8%	5%	7%	7%	7%	7%	7%
Sales & Distribution	463.9	117.1	114.8	139.8	119.3	491.0	124.7	118.2	144.5	128.2	515.6	133.4	126.4	154.7	137.2	551.7
% change	5%	2%	5%	10%	6%	6%	6%	3%	3%	8%	5%	7%	7%	7%	7%	7%
Marketing, General & Administrative	254.9	65.8	62.6	76.3	65.1	269.8	70.1	64.5	78.8	69.9	283.3	75.0	69.0	84.4	74.8	303.1
% change	5%	2%	5%	10%	6%	6%	6%	3%	3%	8%	5%	7%	7%	7%	7%	7%
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	595.1	154.0	146.1	177.9	151.8	629.8	163.9	150.4	184.0	163.2	661.4	175.4	160.9	196.8	174.6	707.7
% change	5%	2%	5%	10%	6%	6%	6%	3%	3%	8%	5%	7%	7%	7%	7%	7%
In-Flight	243.2	63.6	59.5	72.4	61.8	257.3	67.7	61.2	74.9	66.4	270.3	72.4	65.5	80.1	71.1	289.2
% change	5%	2%	5%	10%	6%	6%	6%	3%	3%	8%	5%	7%	7%	7%	7%	7%
Employee Profit Sharing	46.8	6.4	-3.3	8.3	4.5	15.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDAR (after profit sharing)	**1,001.7**	**200.9**	**117.9**	**215.4**	**190.5**	**724.8**	**216.9**	**154.1**	**281.5**	**232.3**	**884.8**	**219.1**	**157.8**	**302.0**	**276.3**	**955.1**
% of sales	22.2%	16.9%	10.8%	17.1%	16.0%	15.3%	16.9%	13.0%	20.4%	17.8%	17.2%	15.8%	12.4%	20.2%	19.6%	17.2%
EPS F.D.	**2.37**	**0.32**	**(0.18)**	**0.40**	**0.26**	**0.80**	**0.34**	**(0.01)**	**0.69**	**0.40**	**1.42**	**0.28**	**(0.04)**	**0.75**	**0.61**	**1.60**

Source: Company Reports; RBC Capital Markets Estimates

Appendix 4: CHR Model

FY Dec 31	2017A	Q1/18	Q2/18	Q3/18	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	Q1/20E	Q2/20E	Q3/20E	Q4/20E	2020E
Billable Block Hours ('000s)	**359,337**	**88,153**	**90,639**	**96,879**	**89,542**	**365,213**	**88,340**	**90,831**	**97,084**	**89,732**	**365,988**	**88,527**	**91,024**	**97,290**	**89,923**	**366,764**
% change	**4.8%**	**4.3%**	**2.1%**	**0.2%**	**0.2%**	**1.6%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**
Available Seat Miles ('000s)	**5320880**	**1232832**	**1381002**	**1483600**	**1308327**	**5405761**	**1235446**	**1383930**	**1486746**	**1311102**	**5417225**	**1238066**	**1386865**	**1489899**	**1313882**	**5428712**
change (% pts)	**4.9%**	**4.3%**	**2.1%**	**0.2%**	**0.2%**	**1.6%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**
CASM (cents)	**22.24**	**24.55**	**23.48**	**20.94**	**25.64**	**23.55**	**26.26**	**24.77**	**22.21**	**27.29**	**25.02**	**26.96**	**25.57**	**22.82**	**28.22**	**25.78**
% change	**0.2%**	**-0.9%**	**7.7%**	**7.3%**	**9.1%**	**5.9%**	**7.0%**	**5.5%**	**6.1%**	**6.4%**	**6.2%**	**2.7%**	**3.2%**	**2.7%**	**3.4%**	**3.0%**
Chorus Aviaition Income Statement ($MM)																
Revenue	**1,355**	**348**	**378**	**367**	**397**	**1,489**	**390**	**411**	**398**	**428**	**1,627**	**406**	**426**	**411**	**443**	**1,686**
% change	6.1%	8.4%	13.5%	6.4%	11.3%	9.9%	12.2%	8.6%	8.5%	7.9%	9.2%	4.1%	3.8%	3.2%	3.6%	3.6%
Salaries, wages and benefits	445	117	109	113	115	455	121	111	115	118	464	123	113	118	120	473
% Sales	33%	34%	29%	31%	29%	31%	31%	27%	29%	27%	29%	30%	26%	29%	27%	28%
Depreciation and amortization	103	30	30	30	30	120	30	29	29	29	118	29	29	29	29	117
% Sales	8%	9%	8%	8%	8%	8%	8%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Aircraft maintenance	193	54	75	56	80	265	65	90	68	100	322	71	99	75	110	355
% Sales	14%	15%	20%	15%	20%	18%	17%	22%	17%	23%	20%	18%	23%	18%	25%	21%
Airport and navigation fees	167	40	43	45	40	167	40	43	46	40	169	41	44	46	41	171
% Sales	12%	11%	11%	12%	10%	11%	10%	11%	11%	9%	10%	10%	10%	11%	9%	10%
Aircraft rent	99	24	24	25	25	98	25	25	25	25	98	25	25	25	25	98
% Sales	7%	7%	6%	7%	6%	7%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Terminal handling	28	6	5	5	6	23	6	5	5	6	23	6	5	5	6	23
% Sales	2%	2%	1%	1%	2%	2%	2%	1%	1%	1%	1%	2%	1%	1%	1%	1%
Other	142	32	38	37	39	146	39	40	43	39	161	39	40	43	40	161
% Sales	10%	9%	10%	10%	10%	10%	10%	10%	11%	9%	10%	10%	9%	10%	9%	10%
Total Operating Expenses	1,183	303	324	311	335	1,273	324	343	330	358	1,355	334	355	340	371	1,399
Operating Income	172	45	54	56	61	216	66	68	68	70	271	72	72	71	72	287
EBITDAR	**374**	**99**	**108**	**111**	**116**	**434**	**120**	**122**	**122**	**124**	**487**	**126**	**126**	**124**	**126**	**502**
% of sales	27.6%	28.4%	28.6%	30.2%	29.2%	29.1%	30.7%	29.7%	30.6%	29.0%	30.0%	31.0%	29.5%	30.3%	28.5%	29.8%
EBITDA	**275**	**75**	**84**	**86**	**91**	**336**	**95**	**97**	**97**	**100**	**389**	**101**	**101**	**100**	**102**	**404**
% of sales	61.8%	63.5%	76.9%	76.0%	79.1%	73.8%	78.8%	88.0%	84.1%	84.7%	83.8%	82.4%	89.5%	84.9%	84.8%	85.3%
Net Income	**180**	**-9**	**10**	**37**	**41**	**79**	**47**	**49**	**49**	**51**	**196**	**54**	**54**	**54**	**56**	**217**
EPS (F.D) ($) (Excluding Special charges)	**$1.32**	**$0.04**	**$0.12**	**$0.31**	**$0.29**	**$0.76**	**$0.33**	**$0.35**	**$0.34**	**$0.36**	**$1.38**	**$0.38**	**$0.38**	**$0.38**	**$0.39**	**$1.53**
CFPS (F.D) ($) (Excluding Special charges)	**$1.87**	**$0.43**	**$0.52**	**$0.50**	**$0.48**	**$1.94**	**$0.54**	**$0.55**	**$0.55**	**$0.57**	**$2.21**	**$0.59**	**$0.59**	**$0.58**	**$0.60**	**$2.36**

Source: Company reports, RBC Capital Markets estimates

Companies mentioned

Air Canada (TSX: AC CN; C$33.02; Outperform; Speculative Risk)
WestJet Airlines Ltd. (TSX: WJA CN; C$21.14; Sector Perform)

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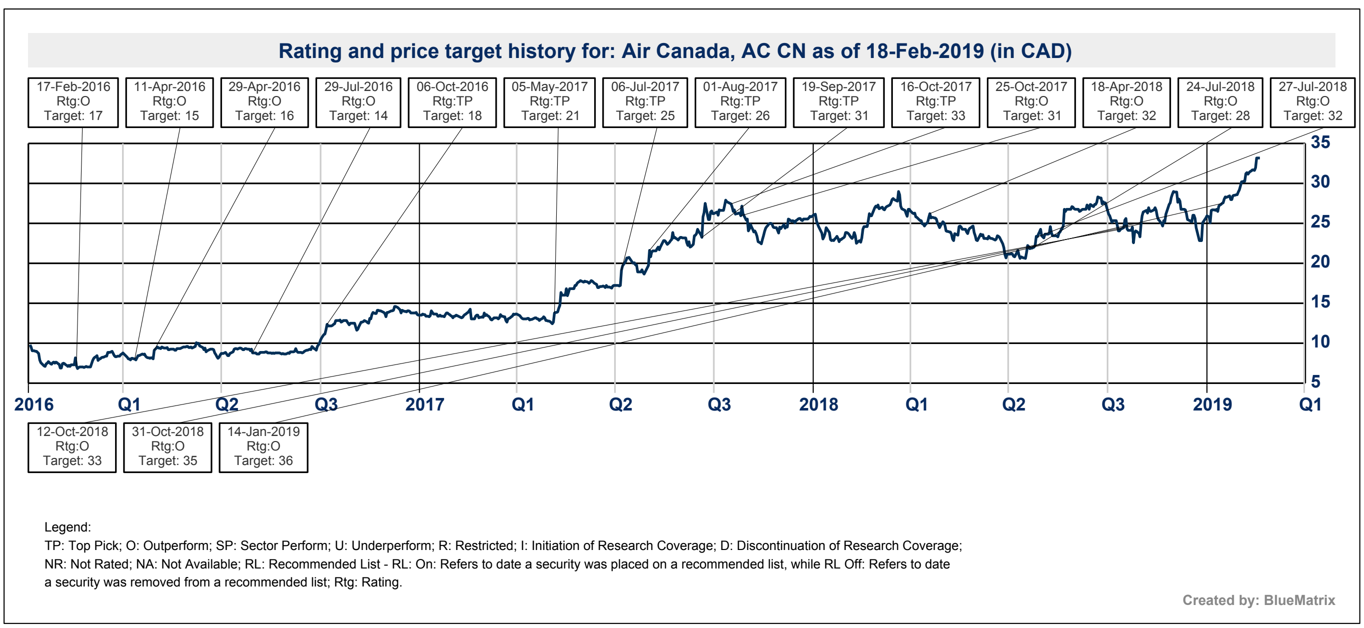
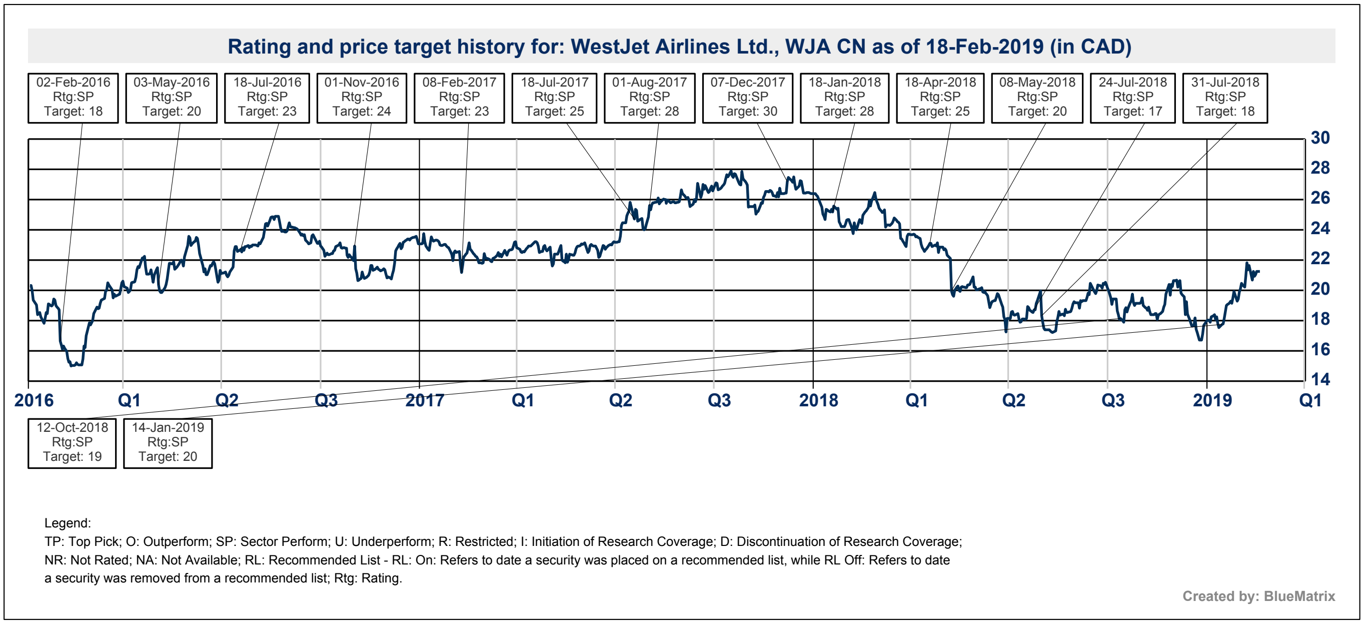
HOLD [Sector Perform]	**642**	**40.25**	**111**	**17.29**
SELL [Underperform]	**77**	**4.83**	**7**	**9.09**





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Air Canada

Valuation

Our $36.00 target price is based on a 4.1x EV/EBITDAR multiple applied to our 2020 estimates, which is a 1.1x 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.

WestJet Airlines Ltd.

Valuation

Our $20 price target is based on an EV/EBITDAR approach whereby we apply a 4.3x 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

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