



January 12, 2017

RBC Flight Deck

Canadian Airlines Q4 preview: Earnings to reinforce positive dynamics

Seeing a positive Q4/14 set-up. Q4/16 is setting up as another strong quarter for the Canadian airlines from an operating and earnings perspective. Traffic growth remains robust and the deep fare sale activity we saw in the first half of 2016 continues to improve. We believe concerns that higher jet fuel prices will dampen fourth quarter earnings are overdone, as we think better than expected traffic trends and the improved pricing environment will more than offset. As such, we see a positive set-up heading into fourth quarter earnings, with Air Canada our preferred name in the sector owing to the carrier's significant cost transformation and what we see as an inflection in FCF. We have a full recap in this report with all of our estimate changes and valuation updates. However, we highlight below our key Q4/16 expectations.

- AC: Maintaining Top Pick and \$18 price target.** For the fourth quarter, we are looking for traffic growth at 16% Y/Y on capacity growth of 18% Y/Y. The RBC Fare Survey did pick up better than expected pricing (primarily on International routes); and as such, we have modified our yield estimate to -4.7% Y/Y (from -6%). Our Q4/16 EBITDAR increases to \$423MM (from \$411MM) and compares to consensus of \$416MM.
- WJA: Maintaining Sector Perform and \$24 price target.** WestJet continues to post solid traffic trends and our RBC Fare Survey is seeing lower rates of fare discounting in the fourth quarter. As such, we raise our Q4/16 EBITDAR to \$234MM (from \$205MM), versus consensus of \$210MM.
- 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 \$93MM, versus consensus of \$87MM. The focus will clearly be around the company's planned regional aircraft leasing subsidiary, Chorus Aviation Capital, announced in late December.

More altitude to climb in 2017. The International Air Transport Association (IATA) announced in December that it expects 2017 to be the third consecutive year in which airlines will make a return on invested capital above the weighted average cost of capital. With three years of sustainable profits and after many years of restructuring and re-engineering the business, the industry is also more resilient. We believe this should help to support further multiple expansion into 2017, with the airlines trading at ~5x forward EBITDAR, which is still significantly below the previous investment cycle valuation high of 7x.

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

Disclosure: RBCCM acted as a co-lead agent to Chorus Aviation Inc. on a transaction with Fairfax Financial Holdings Limited that was announced on December 19, 2016.

RBC Dominion Securities Inc.
Walter Spracklin, CFA
 (Analyst)
 (416) 842-7877
 walter.spracklin@rbccm.com
Derek Spronck (Analyst)
 (416) 842-7833
 derek.spronck@rbccm.com

Steve Arthur, CFA (Analyst)
 (416) 842-7844
 steve.arthur@rbccm.com
Niki Shi (Associate)
 (416) 842-5338
 niki.shi@rbccm.com



INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTSX	0.7	0.9	25.2	Δ
S&P 500	0.4	1.3	17.9	Δ
AMEX Airline	(0.2)	2.0	45.3	▼
AMEX Aerospace	0.1	2.0	24.0	Δ

COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	(3.1)	(5.4)	21.5	▼
Jet Fuel	0.1	(5.5)	50.8	Δ
CAD/USD	0.8	(1.5)	(6.9)	Δ

AEROSPACE				
Bombardier	30.0	13.8	100.8	Δ
Boeing	1.6	2.2	22.2	Δ
EADS	9.1	3.5	11.9	Δ
Embraer	8.4	7.1	(26.3)	Δ
General Dynamics	0.6	2.1	34.3	Δ
Textron	3.2	2.8	28.4	Δ
United Technologies	1.3	1.5	22.9	Δ

N.A. MAINLINE				
Air Canada	(7.9)	(0.6)	48.0	▼
AMR	(2.3)	3.8	18.0	▼
Delta	(1.6)	3.5	9.0	▼
United	(2.0)	1.1	42.7	▼

N.A. REGIONAL				
Alaska	2.5	3.7	30.2	Δ
Allegiant	3.2	7.0	11.7	Δ
Chorus Aviation	12.3	1.9	40.4	Δ
JetBlue	2.8	0.4	9.9	Δ
SkyWest	(6.2)	0.3	138.0	▼
Southwest	3.1	3.0	22.1	Δ
WestJet	2.2	0.2	21.5	Δ

INTL. AIRLINES				
Lufthansa	(7.9)	(4.5)	(20.0)	▼
Air France/KLM	(2.6)	(2.9)	(35.2)	▼
BA/Iberia	9.4	9.5	(17.1)	Δ
Cathay Pacific	(5.5)	(5.5)	32.7	▼
Air China	(0.6)	4.4	4.4	▼
China Eastern	0.8	2.3	0.3	Δ
China Southern	0.0	8.4	(8.0)	Δ
Singapore Airlines	0.8	1.8	(10.2)	Δ
Qantas	(0.9)	2.1	(14.6)	▼

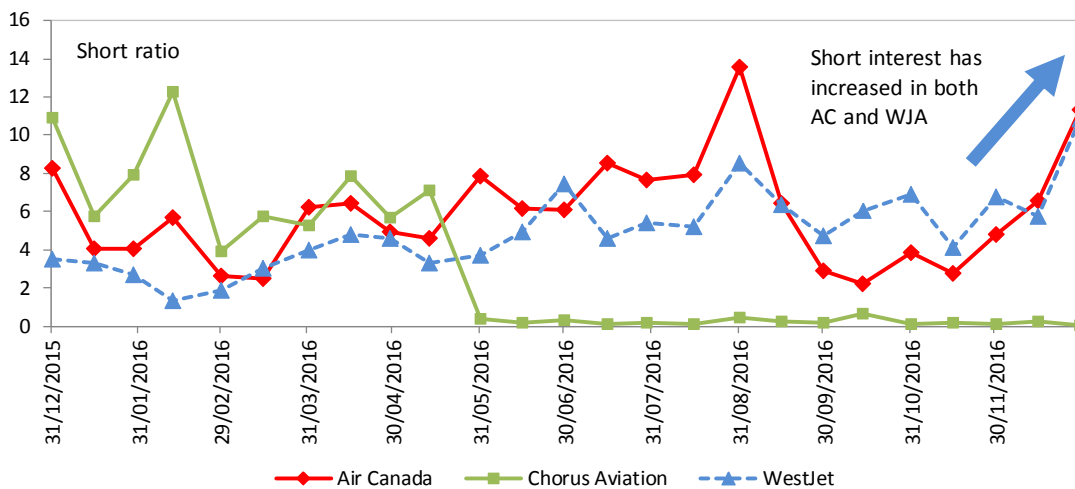
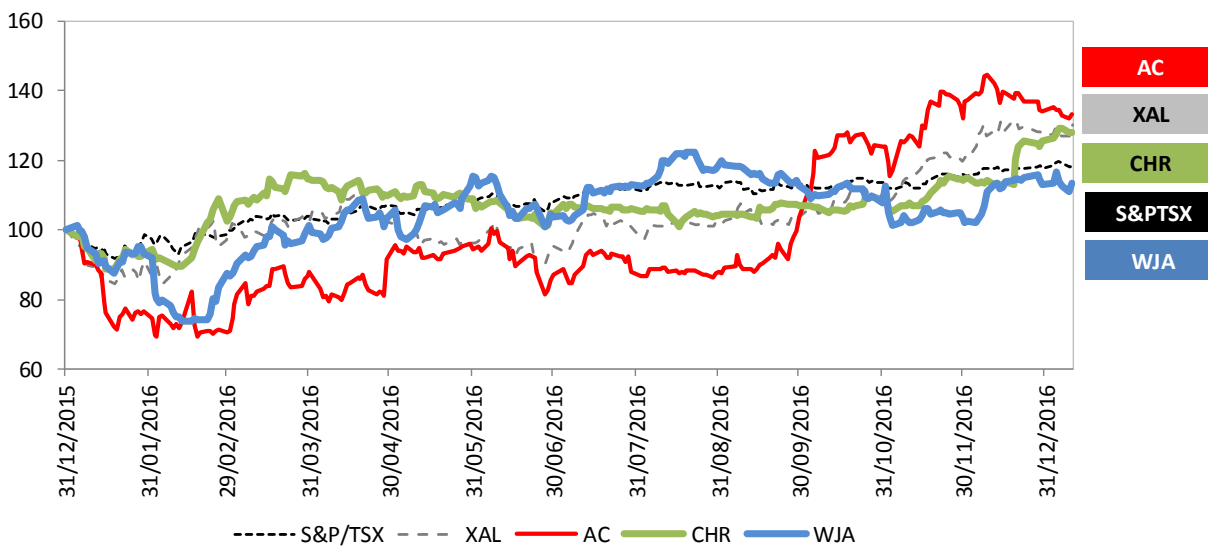
Source: Bloomberg

Canadian Airlines Q4/16 preview

Capping off an impressive 2016

Q4/16 is setting up to be another strong quarter for the Canadian airlines from an operating and earnings perspective. Traffic growth remains robust and the deep fare sale activity we saw in the first half of 2016 continues to improve. The airline sector has been relatively rangebound heading into fourth quarter earnings after seeing a Q3/16 lift, and we note that short interest has recently increased for both Air Canada and WestJet. This is likely due to concerns that higher jet fuel prices will dampen fourth quarter earnings. However, we believe the strong traffic trends and improving fare price environment should more than offset. As such, we see a positive set-up heading into fourth quarter earnings, with Air Canada our preferred name in the sector owing to the carrier's significant cost transformation and what we see as an inflection in FCF over the next five years.

Exhibit 1: Seeing a good set-up heading into fourth quarter earnings



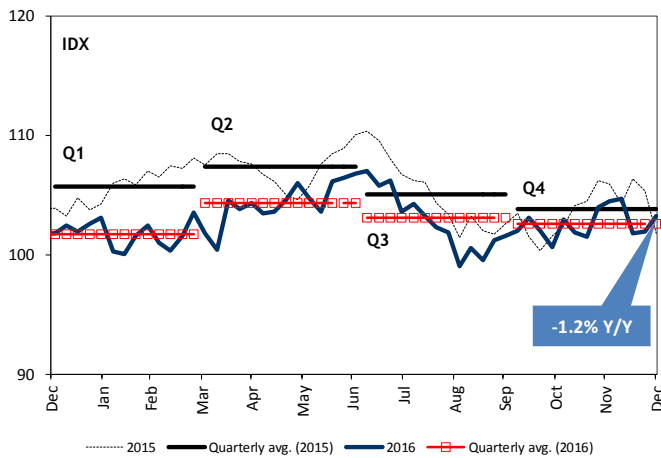
Source: Bloomberg, RBC Capital Markets

Fare sale activity continues to tighten in the fourth quarter

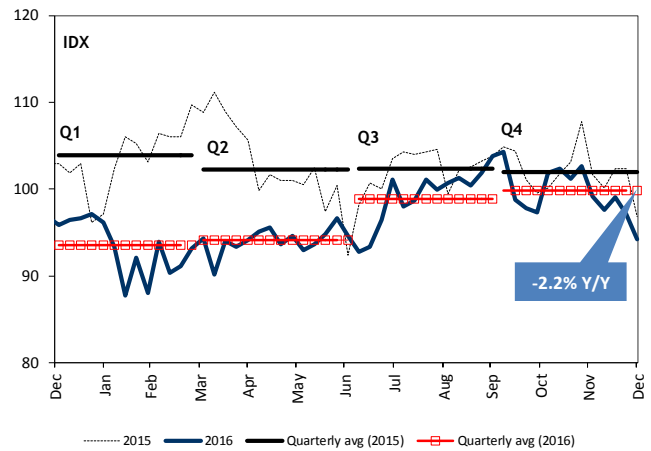
As tracked by the RBC Fare Survey, the Canadian airlines continued to tighten fare sale activity as compared to the first half of 2016. For the quarter, the RBC Fare Survey picked up a -2.2% Y/Y fare decline for WestJet. After adjusting down by 80bp to account for mix, it implies a yield decline of -3% Y/Y (vs. our prior yield estimate of -3.6%). For Air Canada, the RBC Fare Survey picked up fare declines of -1.2% Y/Y. After adjusting down by 350bp for mix, it implies a yield decline of -4.7% Y/Y (vs. our prior yield estimate at -6%).

Exhibit 2: 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

IATA looking for another strong year of airline profitability led by the NA carriers

The International Air Transport Association (IATA) announced in December that it expects the global airline industry to make a net profit in 2017 of \$29.8B. Furthermore, IATA expects that 2017 will be the third consecutive year (and the third year in the industry’s history) in which airlines will make a return on invested capital at 7.9%, which is above the weighted average cost of capital at 6.9%. IATA noted that record profits for airlines means earning more than the cost of capital. For most other businesses, that would be considered a normal level of return to investors. But three years of sustainable profits is a first for the airline industry. And after many years of restructuring and re-engineering the business, the industry is also more resilient. We believe this should help to support further multiple expansion into 2017, with the airlines trading at ~5x forward EBITDAR, which is still significantly below the previous investment cycle valuation high of 7x. IATA further indicated that profits are not expected to be evenly spread, with the strongest performance expected to be concentrated in North America.



Air Canada (TSX: AC)

Top Pick, Speculative Risk; \$18 Price Target

SUMMARY

Market price:	\$14.23	52-Wk High:	\$12.29
Yield (12-mth):	0.0%	52-Wk Low:	\$6.81
Total est. return:	26%	Mkt Cap (MM):	\$3,984
Shares O/S (MM):	280.0	Net Debt (MM):	\$6,814
Float (MM):	\$3,984	EV (MM):	\$10,798

STOCK SET-UP

3-Month Performance (as of January 10th)	
Absolute	10.4%
vs. S&P/TSX	496 bps

Short Interest (Days to Cover)	
Current	11.3
3-Month Average	5.3

Analyst Sentiment	
Outperform	69%
Sector Perform	25%
Underperform	6%

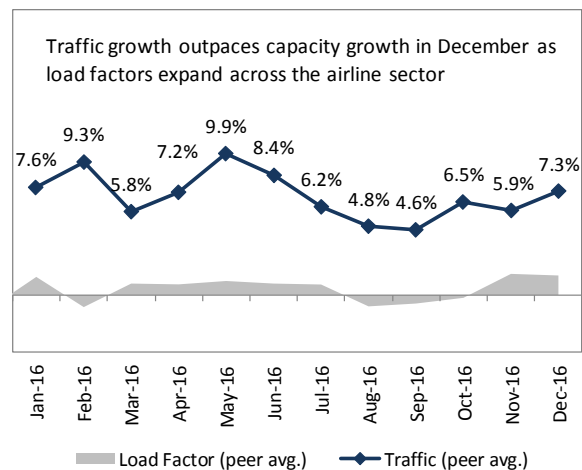
CONFERENCE CALL DETAILS

- Friday, February 17

Q4/16 set-up. While we believe consensus estimates in Q4/16 are fair, due to the increased short interest and still cheap multiple of AC shares, we would continue to be buyers ahead of fourth quarter earnings. For the fourth quarter, we are looking for traffic growth at 16% Y/Y on capacity growth of 18% Y/Y. The RBC Fare Survey did pick up improved pricing (primarily on International routes), and as such we have modified our yield estimate to -4.7% Y/Y (from -6%). Net/net, our Q4/16 EBITDAR is increased to \$423MM (from \$411MM) and compares to consensus of \$416MM.

Maintaining 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. Maintaining Top Pick.

TRAFFIC DATA



	RBC CM Q4/16E			RBC CM 2017E			RBC CM 2018E		
	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var
Traffic: RPMs (% chg)	16.0%	16.0%	0bp	8.9%	8.9%	0bp	5.0%	5.0%	0bp
Capacity: ASMs (% chg)	18.0%	18.0%	0bp	9.6%	9.6%	0bp	6.0%	6.0%	0bp
Load Factor (%pts)	81.8%	81.8%	0bp	82.4%	82.4%	0bp	81.6%	81.6%	0bp
Yield (% chg)	-6.0%	-4.7%	130bp	-1.8%	-1.0%	76bp	1.5%	2.0%	50bp
RASM (% chg)	-5.1%	-3.8%	131bp	-3.7%	-3.0%	68bp	0.5%	1.0%	50bp
Adj. CASM ex fuel+other (% chg)	-5.3%	-5.7%	-33bp	-5.9%	-5.9%	6bp	-0.8%	-0.8%	-4bp
Avg Jet Fuel Price: (\$/Ltr)	\$0.61	\$0.65	5.1%	\$0.60	\$0.66	8.7%	\$0.62	\$0.67	7.0%
Revenue	3,388	3,430	1.2%	15,409	15,551	0.9%	16,353	16,578	1.4%
Expenses	2,977	3,007	1.0%	12,744	13,002	2.0%	13,475	13,687	1.6%
EBITDAR	411	423	3.1%	2,665	2,549	-4.3%	2,877	2,891	0.5%
Consensus EBITDAR		416			2,695			2,950	

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

Priced as of market close January 11, 2017



Chorus Aviation (TSX : CHR)

Outperform; \$8.00 Price Target

SUMMARY

Market price:	\$7.39	52-Wk High:	\$7.49
Yield (12-mth):	6.5%	52-Wk Low:	\$4.97
Total est. return:	1%	Mkt Cap (MM)	\$926
Shares O/S (MM):	125.3	Net Debt (MM)	\$759
Float (MM):	#REF!	EV (MM):	\$1,686

STOCK SET-UP

3-Month Performance (as of January 10th)	
Absolute	20.4%
vs. S&P/TSX	1499 bps

Short Interest (Days to Cover)	
Current	0.1
3-Month Average	0.3

Analyst Sentiment	
Outperform	86%
Sector Perform	14%
Underperform	0%

CONFERENCE CALL DETAILS

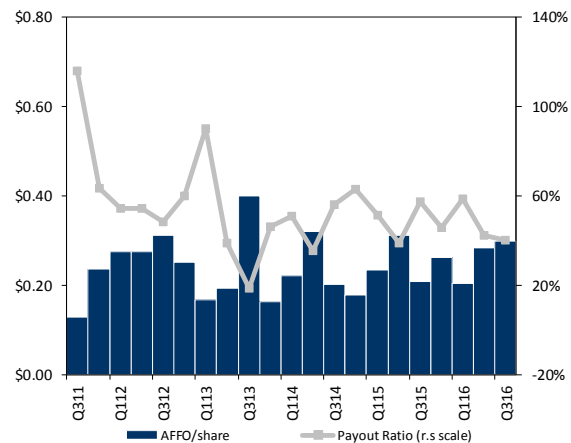
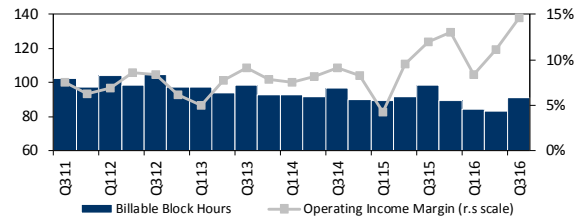
- Thursday, February 16

Q4/16 set-up: On a quarterly perspective, we do not see much in the way of EBITDAR variability. For the quarter, we are looking for EBITDAR of \$93MM versus consensus of \$87MM.

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. The converts are in four tranches expected to be allocated in the first quarter of 2017. We expect much of the conference call to be focused around the company's new initiative, which we see as providing another leg of capital appreciation in CHR shares.

Disclosure: RBCCM acted as a co-lead agent to Chorus Aviation Inc. on a transaction with Fairfax Financial Holdings Limited that was announced on December 19, 2016.

OPERATING METRICS



	Q4/16E	Y/Y	2016E	Y/Y	2017E	Y/Y	2018E	Y/Y
Revenue breakdown								
Flight revenue including charter	201	-0.4%	769	-5.8%	789	2.6%	819	3.9%
Leasing under CPA	24	19.4%	96	39.2%	94	-1.7%	96	1.9%
Margin compensation	28	0.9%	110	0.5%	111	0.4%	111	0.0%
Incentives	4	-38.0%	20	-9.6%	14	-28.7%	14	0.0%
Pass through revenue	64	-32.3%	268	-46.4%	265	-1.4%	269	1.8%
Other revenue	6	-24.3%	24	-10.4%	28	13.0%	36	28.9%
Total Revenues	326	-8.8%	1,288	-16.6%	1,300	1.0%	1,345	3.5%
Total Expenses	277	-10.9%	1,129	-19.1%	1,109	-1.8%	1,141	2.9%
EBITDAR	93	3.7%	331	5.8%	349	5.5%	375	7.7%
EPS	0.26	-1.9%	1.10	24.4%	1.07	-2.6%	1.17	9.2%
<i>Consensus EBITDA</i>	<i>87</i>		<i>232</i>		<i>360</i>		<i>376</i>	

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

Priced as of market close January 11, 2017



WestJet (TSX: WJA)

Sector Perform; \$24 Price Target

SUMMARY

Market price:	\$23.52	52-Wk High:	\$24.98
Yield (12-mth):	2.4%	52-Wk Low:	\$14.67
Total est. return:	4%	Mkt Cap (MM):	\$2,800
Shares O/S (MM):	119.0	Net Debt (MM):	\$608
Float (MM):	\$2,705	EV (MM):	\$3,408

STOCK SET-UP

3-Month Performance (as of January 10th)	
Absolute	3.4%
vs. S&P/TSX	-203 bps

Short Interest (Days to Cover)	
Current	10.9
3-Month Average	6.7

Analyst Sentiment	
Outperform	29%
Sector Perform	65%
Underperform	6%

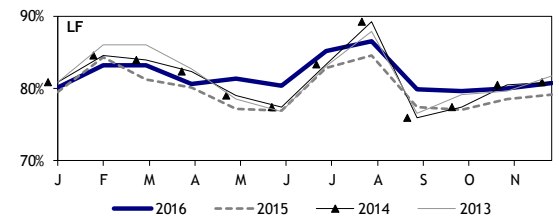
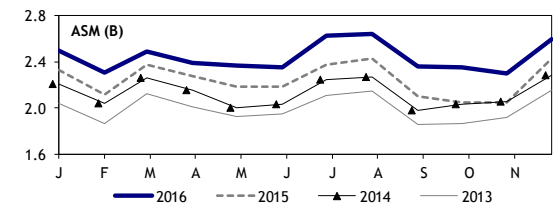
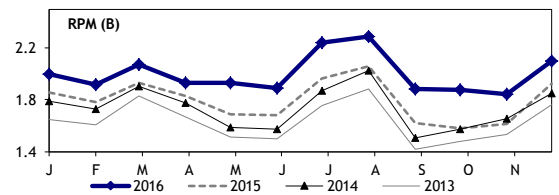
CONFERENCE CALL DETAILS

- Tuesday, February 7 (Time TBD)

Q4/16 set-up. WestJet continues to post solid traffic trends and our RBC Fare Survey is seeing lower rates of fare discounting in the fourth quarter. As such, we raise our Q4/16 EBITDAR to \$234MM (from \$205MM), versus consensus of \$210MM.

Maintaining Sector Perform. We expect WJA to report strong financial metrics, as the company is benefiting from a low fuel price environment and 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 potential unionization of the company's pilots, we continue to see better valuation upside in AC and CHR shares.

TRAFFIC DATA











	RBC CM Q4/16			RBC CM 2017E			RBC CM 2018E		
	Old	New	Var	Old	New	Var	Old	New	Var
Traffic: RPMs (% chg)	10.0%	13.7%	371bp	4.0%	4.0%	0bp	4.5%	4.5%	0bp
Capacity: ASMs (% chg)	10.5%	11.2%	69bp	4.5%	4.5%	0bp	4.5%	4.5%	0bp
Load Factor (%pts)	-0.3%	1.8%	213bp	-0.4%	-0.4%	0bp	0.0%	0.0%	0bp
Yield (% chg)	-3.6%	-3.0%	60bp	1.5%	1.5%	0bp	1.5%	1.5%	0bp
RASM (% chg)	-4.0%	-0.8%	323bp	1.0%	1.0%	0bp	1.5%	1.5%	0bp
Adj. CASM ex fuel+other items (% chg)	-1.6%	-1.4%	18bp	3.0%	3.0%	0bp	0.8%	0.8%	0bp
Avg Jet Fuel Price (\$C/Ltr)	0.59	0.59	-0.4%	0.60	0.62	3.7%	0.61	0.63	3.0%
Revenue	1,017	1,058	4.0%	4,351	4,394	1.0%	4,615	4,661	1.0%
Expenses	812	824	1.5%	3,452	3,488	1.0%	3,659	3,696	1.0%
EBITDAR	205	234	13.8%	899	906	0.8%	956	965	0.9%
Consensus EBITDAR	210			975			1041		

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

Priced as of market close January 11, 2017

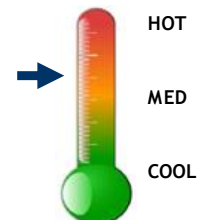
The Bombardier New Order Map

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
Multiple airlines	Commercial: CSeries	Potentially 50+ (~\$3.4B)	Given eight airlines with Cseries order commitments (at 200+ aircraft), BBD could announce several conversions to firm orders.	
Chinese Airlines	Commercial: CSeries	+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 include 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.	
Latin American Airlines	Commercial: CSeries	Uncertain	Bombardier is set to take the CSeries 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.	
JetBlue	Commercial: CSeries	Uncertain	Following the Delta win, JetBlue has resumed talks with Bombardier. The CSeries may substitute E-190s for short-haul, high-frequency routes out of Boston.	
AtlasJet	Commercial: CSeries	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.	
SpiceJet	Regional: Q400	Up to 50	The carrier is looking to buy 50 additional regional jets and is in talks with Bombardier, ATR, and Embraer about placing a large aircraft.	
CityJet	Commercial: CSeries	Uncertain	CityJet chose to take 15 Superjets over 12-year leases. A CSeries order is still possible, but timing has likely been pushed out.	
(-) Delta Air Lines	Regional: 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 CSeries now on revenue-generating flights, and as performance and dispatch reliability numbers come in, we believe there will be renewed interest in the CSeries. Bombardier management showed renewed vigor on the potential sales ramp following the Air Canada and Delta orders, highlighting interest from Chinese airlines, lessors, and low-cost carriers.





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

- **Second CS300 delivered to airBaltic.** Bombardier has now delivered two CS300 aircraft to Latvian airliner airBaltic. The aircraft departed Montreal on 31 December 2016 and arrived in Riga on 1 January 2017, according to the airline. airBaltic has 20 of the type on order. It received the first CS300 last November. It says that it is aiming to use the CS300s to expand its network with at least 10 more routes this year. (Source: Bombardier, January 4)
- **Two peas in a pod: CS100/300 share same pilot type rating.** Bombardier Commercial Aircraft announced that its CS300 airliner has been awarded Type Validation by the U.S. Federal Aviation Administration (FAA). This most recent approval means that both the CS300 aircraft and the smaller CS100 aircraft are now approved by Transport Canada, the European Aviation Safety Agency (EASA), and the FAA. The FAA recently conducted an operational evaluation on the CS100 and CS300 aircraft and determined that both aircraft will share the same pilot type rating, allowing operators to benefit from significant cost-saving opportunities. (Source: Bombardier, December 22)
- **Par for the course.** Brazil says that it will challenge Canada at the World Trade Organization for allegedly channeling unfair subsidies to the aerospace and transportation company Bombardier. Brazil's Foreign Ministry issued a statement saying, "the support for Bombardier is incompatible with WTO rules and affects its Brazilian competitor Embraer". Brazil also says that Canada's federal government plans another investment in Bombardier to artificially reduce prices of its new CSeries airplanes. Bombardier's chief executive said in late December that the company was still seeking federal funds. Prime Minister Justin Trudeau said that the government was working "very productively" with Bombardier and he hoped to make announcements in coming months. (Source: Bombardier, January 4)

Regional jets

- **Not as easy as it looks: Another MRJ delay may be in the works.** According to FlightGlobal, the fourth quarter of 2016 was a busy one for Mitsubishi. Mitsubishi was pushing to bring its test fleet to the US early to accelerate its test program and provide a buffer for technical or certification issues that could arise. However, the airframer said last month that it is evaluating the MRJ program's schedule and is likely to make an announcement on any possible changes around the end of January. The comment comes amid speculation that Mitsubishi will announce a fifth delay to the program, following its admission last October that it has warned launch customer All Nippon Airways of a "risk of delay" of the first MRJ. The current target is for the first MRJ90 to achieve certification in 2018, and for the aircraft to enter into service by mid-2018. (Source: FlightGlobal, January 5)

Business jets

- **Creating a legacy in Canada.** In December, Embraer Executive Jets delivered the first Legacy 450 mid-light business jet to AirSprint, a Canadian privately held fractional aircraft ownership company based in Calgary, Alberta, marking the first Legacy 450 delivery in Canada. (Source: Embraer, December 22)



CAE

Civil

- **L3 Technologies to construct airline training center and simulator production facility.** L3 Technologies announced that it will partner with Surrey County Council in the UK to develop and construct an airline training center and production facility for the manufacturer of aircraft simulators. The training facility will be named L3 London Training Center and is expected to become operational in 2018. The training center will be equipped with eight full-flight-simulators, briefing rooms and classrooms, and a restaurant. The production facility will provide manufacturing capacity for 30 simulators per year to meet the growing backlog and demand of L3 CTS products; it will also provide office space for more than 300 employees. (L3 Technologies, Jan. 9, 2017)
- **Norwegian parliament provides close to 100% funding for commercial pilot education.** The Norwegian parliament announced that Norwegian students for commercial pilot education will now receive close to 100% funding from the Norwegian State Educational Loan Fund. The funding has no requirement for securing of the loan and no interest for the duration of enrolment. The funding model may be adapted by more governments to help address and mitigate the global pilot shortage. (Halldale, Dec. 12, 2016)

Military

- **US Air Force running short on fighter and mobility pilots.** Air Mobility Command (AMC) is concerned that a shortfall of fighter and mobility pilots is likely to grow over the next few years. Nine of ten refueling tanker missions flown as part of the war against the Islamic State involves AMC aircraft, and the command is currently facing a ~4% shortfall (short 315 pilots out of ~8,000 total force pilots). Air Force pilot retention rate has declined in recent years as it competes with commercial airlines for trained pilots. (AirForce Times, Jan. 5, 2017)
- **CAE upgraded GESI simulation system for training for Austrian Army.** CAE has installed the upgraded version of its GESI command and staff training system (FüSim) in Weitra, Austria. CAE is also providing a third-party communications system to the Austrian Army's Military Academy. Upgrades to the system include exercise editors and post-action-review capabilities. CAE is expected to deliver additional upgrades to the same division in 2017. (CAE, Jan. 3, 2017)



The Landing Strip

Airline Economics Growth Frontiers Dublin

When: January 15–18

Where: Dublin, Ireland

What: Airline Economics Growth Frontiers aims to bring in airlines from across the globe, with a focus on those that have or will have RFPs in the market for the financing and leasing of commercial aircraft.

The Buzz: Bombardier Commercial Aircraft will be attending the Airline Economics Growth Frontiers in Dublin. While we do not expect any orders to be announced during the event, Bombardier will have another chance to interact with a range of global airlines to promote both its suite of commercial aircraft and its financing capabilities. We note that Embraer will also be in attendance, looking for the same opportunities as it begins to roll out the E2 regional jet variant in 2018.



Valuation and risks

Air Canada

On a 4.2x EV/EBITDAR applied to our 2018 estimates, we derive our price target of \$18.00. Our 4.2x EBITDAR multiple remains in line with 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 rating. Due to high debt leverage and operating in a cyclical sector, we believe a Speculative Risk qualifier is warranted.

Risks to our rating and price 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 an EV/EBITDAR multiple approach, supported by our discounted cash flow valuation analysis. We are applying a 6.2x EBITDAR multiple to our 2018E EBITDAR at \$375MM, which is a 100bp premium to the regional jet peers, owing to the anticipated growth and diversification into regional aircraft leasing. Our price target supports our Outperform rating.

Risks to our 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 \$24 price target is based on an EV/EBITDAR approach whereby we assign a 5x multiple to our 2018 estimate results in a return that is the basis of our Sector Perform rating. Our target multiple is a slight relative 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 our rating and price target 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	Price	EV/EBITDAR				EV/Sales				EBITDAR Margin				Net Debt to EBITDAR		
		2015	2016E	2017E	2018E	2015	2016E	2017E	2018E	2015	2016E	2017E	2018E			
Discount Airlines																
WestJet	WJA-CA	C\$	\$23.52	4.5x	4.6x	5.0x	4.7x	1.1x	1.1x	1.0x	1.0x	25%	24%	21%	21%	2.0x
Southwest	LUV-US	US\$	\$51.68	6.4x	6.2x	6.4x	5.8x	1.7x	1.7x	1.6x	1.5x	27%	27%	25%	26%	0.6x
JetBlue	JBLU-US	US\$	\$22.78	5.4x	4.7x	5.0x	4.9x	1.5x	1.4x	1.3x	1.2x	28%	31%	27%	25%	1.9x
Discount Average				5.4x	5.3x	5.6x	5.2x	1.4x	1.4x	1.3x	1.2x	27%	27%	24%	24%	1.2x
Mainline Airlines																
Air Canada	AC-CA	C\$	\$14.23	4.4x	4.1x	4.4x	3.9x	0.8x	0.8x	0.7x	0.7x	18%	19%	16%	17%	2.6x
Delta Air Lines	DAL-US	US\$	\$51.44	5.1x	5.1x	5.5x	5.3x	1.1x	1.1x	1.1x	1.1x	21%	22%	20%	20%	0.6x
United Continental	UAL-US	US\$	\$75.04	4.4x	4.3x	5.1x	4.8x	0.9x	1.0x	0.9x	0.9x	21%	22%	18%	19%	1.4x
American Airlines	AAL-US	US\$	\$48.62	5.0x	5.0x	5.9x	5.6x	1.1x	1.1x	1.1x	1.1x	22%	23%	19%	19%	2.2x
Mainline Average				4.7x	4.6x	5.2x	4.8x	1.0x	1.0x	1.0x	0.9x	21%	21%	18%	19%	1.4x
Regional Airlines																
Chorus Aviation	CHR-CA	C\$	\$7.39	5.7x	5.4x	5.1x	4.8x	1.2x	1.4x	1.4x	1.3x	20%	26%	27%	28%	3.1x
SkyWest Inc.	SKYW-US	US\$	\$36.80	5.3x	5.0x	5.0x	5.6x	1.9x	1.9x	1.9x	2.0x	36%	37%	37%	35%	4.1x
Regional Average				5.5x	5.2x	5.1x	5.2x	1.5x	1.6x	1.6x	1.7x	28%	32%	32%	32%	3.6x
Airline Average				5.1x	4.9x	5.3x	5.0x	1.3x	1.3x	1.2x	1.2x	24%	26%	22%	22%	2.1x

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at the close of January 11, 2017



Appendix 2: Aerospace Comparables

Company	Exch: Ticker	11-Jan Price	CY EPS ⁽¹⁾			CY PER			CY EV/EBITDA ⁽¹⁾			Mkt Cap B
			2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	
Aerospace												
Boeing	NYSE:BA	US\$ \$159.40	\$7.72	\$6.98	\$9.35	18.9x	20.9x	15.6x	9.7x	12.0x	8.6x	\$98.4
Embraer*	NYSE: ERJ	US\$ \$21.03	\$1.48	\$2.07	\$1.80	14.0x	10.1x	11.6x	6.6x	6.4x	5.7x	\$3.9
General Dynamics	NYSE: GD	US\$ \$177.07	\$9.08	\$9.78	\$10.04	18.2x	16.9x	16.5x	11.1x	10.8x	10.8x	\$53.9
Textron	NYSE: TXT	US\$ \$49.98	\$2.50	\$2.92	\$2.70	17.7x	16.4x	15.2x	9.7x	9.5x	8.9x	\$13.5
Average						17.2x	16.1x	14.7x	9.3x	9.7x	8.5x	
Transportation & Conglomerates												
Siemens	XE: SIE	EUR 117.25	6.17	6.90	7.48	19.0x	17.0x	15.7x	13.1x	11.6x	10.5x	\$99.7
General Electric	NYSE: GE	US\$ \$31.47	\$1.31	\$1.49	\$1.66	24.0x	21.1x	19.0x	18.9x	19.5x	17.8x	\$278.4
United Technologies	NYSE: UTX	US\$ \$111.00	\$6.30	\$6.60	\$6.57	17.6x	16.8x	16.9x	9.6x	10.0x	10.2x	\$91.4
Average						20.2x	18.3x	17.2x	13.9x	13.7x	12.8x	
Aerospace Multiples						17.2x	16.1x	14.7x	9.3x	9.7x	8.5x	
Transportation Multiples (ex. GE, UTX)						19.0x	17.0x	15.7x	13.1x	11.6x	10.5x	
Average						18.1x	16.5x	15.2x	11.2x	10.6x	9.5x	
Bombardier	TSX: BBD.B	C\$ \$2.59	\$0.16	-\$0.13	-\$0.01	11.9x	nmf	nmf	11.9x	15.8x	12.5x	\$5.8

* Covered by RBC Dominion Securities, Industrials analyst Derek Spronck
 (1) Peer group consensus EPS and EBITDA estimates sourced from FactSet

Sources: Company reports, FactSet, and RBC Capital Markets estimates. Priced at the close of January 11, 2017



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

FY Dec 31	2015	Q1/16	Q2/16	Q3/16	Q4/16E	2016E	Q1/17E	Q2/17E	Q3/17E	Q4/17E	2017E	2018E	2019E	2020E
Traffic / RPM (MMs)	67,545	16,092	18,418	24,328	17,749	76,587	18,184	20,628	25,788	18,814	83,414	87,585	89,336	91,123
% change	9.6%	7.7%	9.3%	18.9%	16.0%	13.4%	13.0%	12.0%	6.0%	6.0%	8.9%	5.0%	2.0%	2.0%
Capacity / ASM (MMs)	80,871	19,833	22,344	28,458	21,699	92,334	22,808	25,249	30,165	23,001	101,223	107,297	110,516	113,831
% change	9.4%	8.2%	11.0%	20.9%	18.0%	14.2%	15.0%	13.0%	6.0%	6.0%	9.6%	6.0%	3.0%	3.0%
Load Factor (%)	83.5%	81.1%	82.4%	85.5%	81.8%	82.9%	79.7%	81.7%	85.5%	81.8%	82.4%	81.6%	80.8%	80.1%
change (% pts)	0.1%	-0.3%	-1.2%	-1.5%	0.7%	-0.6%	-1.4%	-0.7%	0.0%	0.0%	-0.5%	-0.8%	-0.8%	-0.8%
Yield (\$)	0.181	0.174	0.167	0.166	0.173	0.170	0.171	0.164	0.166	0.173	0.169	0.172	0.174	0.177
% change	-4.6%	-5.0%	-6.8%	-7.0%	-4.7%	-5.8%	-2.0%	-2.0%	0.0%	0.0%	-1.0%	2.0%	1.5%	1.5%
RASM (Rev per unit of capacity, cents)	15.4	14.1	13.8	14.1	14.2	14.3	13.6	13.4	14.2	14.2	13.9	14.0	14.1	14.1
CASM (excl. fuel) (cents)	11.8	13.5	11.5	9.7	11.9	11.5	12.3	10.7	9.4	11.3	10.8	10.7	10.7	10.6
Total Revenues	13,868	3,343	3,458	4,451	3,430	14,682	3,589	3,705	4,635	3,621	15,551	16,578	17,139	17,720
Wages, salaries and benefits	2324	608	611	658	641	2518	651	654	685	667	2657	2765	2876	3007
% Sales	16.8%	18.2%	17.7%	14.8%	18.7%	17.2%	18.1%	17.7%	14.8%	18.4%	17.1%	16.7%	16.8%	17.0%
Aircraft Fuel - total	2823	510	604	804	725	2643	754	844	1019	780	3397	3619	3725	3823
% Sales	20.4%	15.3%	17.5%	18.1%	21.1%	18.0%	21.0%	22.8%	22.0%	21.5%	21.8%	21.8%	21.7%	21.6%
Sales and distribution costs	608	182	170	179	152	683	205	187	184	156	732	765	788	812
% Sales	4.4%	5.4%	4.9%	4.0%	4.4%	4.7%	5.7%	5.0%	4.0%	4.3%	4.7%	4.6%	4.6%	4.6%
Food, beverages, supplies	314	77	86	104	88	355	86	95	107	92	380	402	415	427
% Sales	2.3%	2.3%	2.5%	2.3%	2.6%	2.4%	2.4%	2.6%	2.3%	2.5%	2.4%	2.4%	2.4%	2.4%
Aircraft maintenance	773	217	239	227	255	938	217	239	227	255	938	966	995	1025
% Sales	5.6%	6.5%	6.9%	5.1%	7.4%	6.4%	6.0%	6.5%	4.9%	7.0%	6.0%	5.8%	5.8%	5.8%
Airport and navigation fees	802	198	211	247	221	877	221	231	253	228	932	988	1018	1048
% Sales	5.8%	5.9%	6.1%	5.5%	6.5%	6.0%	6.2%	6.2%	5.5%	6.3%	6.0%	6.0%	5.9%	5.9%
Communications and information techn	211	67	59	56	55	237	75	64	56	56	252	256	253	249
% Sales	1.5%	2.0%	1.7%	1.3%	1.6%	1.6%	2.1%	1.7%	1.2%	1.6%	1.6%	1.5%	1.5%	1.4%
Other	3064	793	788	856	779	3216	809	829	848	735	3222	3419	3535	3434
% Sales	22.1%	23.7%	22.8%	19.2%	22.7%	21.9%	22.5%	22.4%	18.3%	20.3%	20.7%	20.6%	20.6%	19.4%
Regional airline expense (ex fuel and DA	1890	493	487	529	480	1989	522	514	524	500	2060	2196	2270	2126
% Sales	13.6%	14.7%	14.1%	11.9%	14.0%	13.5%	14.5%	13.9%	11.3%	13.8%	13.2%	13.2%	13.2%	12.0%
Total Operating Costs	10,919	2,652	2,768	3,131	2,917	11,468	3,018	3,144	3,379	2,969	12,510	13,180	13,604	13,825
EBITDAR	2,534	460	605	1,248	423	2,736	333	474	1,182	560	2,549	2,891	3,014	3,358
% of sales	18.3%	13.8%	17.5%	28.0%	12.3%	18.6%	9.3%	12.8%	25.5%	15.5%	16.4%	17.4%	17.6%	18.9%
EPS (F.D) (\$) (Exc. Special charges)	\$ 4.18	\$ 0.30	\$ 0.72	\$ 2.93	\$ 0.11	\$ 4.07	\$ (0.20)	\$ 0.27	\$ 2.51	\$ 0.59	\$ 3.17	\$ 4.03	\$ 4.37	\$ 5.44

Source: RBC CM estimates, Company reports



Chorus Aviation (TSX: CHR.B)

FY Dec 31	2015	Q1/16	Q2/16	Q3/16	Q4/16E	2016E	Q1/17E	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	84,897	343,445	88,743	85,453	93,799	87,444	355,438	89,630	86,307	94,737	88,318	358,993
% change	-0.7%	-5.1%	-9.4%	-7.3%	-5.0%	-6.7%	5.0%	3.0%	3.0%	3.0%	3.5%	1.0%	1.0%	1.0%	1.0%	1.0%
Available Seat Miles ('000s)	5,451	1,182	1,264	1,395	1,240	5,081	1,241	1,302	1,436	1,278	5,257	1,253	1,315	1,451	1,290	5,310
change (% pts)	-1.0%	-5.1%	-9.4%	-7.3%	-5.0%	-6.8%	5.0%	3.0%	3.0%	3.0%	3.5%	1.0%	1.0%	1.0%	1.0%	1.0%
CASM (cents)	25.6	24.9	21.8	20.3	22.3	22.2	23.9	20.4	19.2	21.2	21.1	24.3	20.8	19.5	21.6	21.5
% change	-7.8%	-13.8%	-16.0%	-16.1%	-6.2%	-13.2%	-3.8%	-6.5%	-5.3%	-5.2%	-5.1%	1.8%	1.9%	1.9%	1.8%	1.9%
Chorus Aviation Income Statement (\$MM)																
Revenue	1,545	321	310	331	326	1,288	345	314	323	318	1,300	356	325	334	329	1,345
% change	-7.3%	-14.5%	-22.5%	-19.7%	-8.8%	-16.6%	7.5%	1.3%	-2.5%	-2.3%	1.0%	3.4%	3.5%	3.5%	3.4%	3.5%
Salaries, wages and benefits	436	116	107	104	108	434	118	99	96	100	412	120	100	97	101	419
% Sales	28%	36%	34%	31%	33%	34%	34%	31%	30%	31%	32%	34%	31%	29%	31%	31%
Aircraft fuel	229	1	1	1	0	2	0	0	0	0	0	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	21	81	16	15	15	15	62	19	19	18	18	74
% Sales	4%	6%	6%	6%	7%	6%	5%	5%	5%	5%	5%	5%	6%	6%	6%	5%
Food and beverage	12	3	3	4	3	12	3	3	4	3	12	3	3	4	3	13
% Sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Aircraft maintenance	197	47	43	47	39	176	50	45	49	41	186	52	47	50	43	191
% Sales	13%	15%	14%	14%	12%	14%	15%	14%	15%	13%	14%	15%	14%	15%	13%	14%
Airport and navigation fees	174	39	39	43	41	162	42	41	45	43	171	43	42	46	43	174
% Sales	11%	12%	13%	13%	12%	13%	12%	13%	14%	13%	13%	12%	13%	14%	13%	13%
Aircraft rent	103	24	22	23	23	91	24	24	24	24	95	24	24	24	24	97
% Sales	7%	7%	7%	7%	7%	7%	7%	8%	7%	7%	7%	7%	7%	7%	7%	7%
Terminal handling	57	12	8	9	13	42	13	9	10	15	47	13	9	10	15	48
% Sales	4%	4%	3%	3%	4%	3%	4%	3%	3%	5%	4%	4%	3%	3%	4%	4%
Other	127	34	33	32	30	128	31	30	33	30	124	31	30	33	31	125
% Sales	8%	10%	11%	10%	9%	10%	9%	9%	10%	10%	10%	9%	9%	10%	9%	9%
Total Operating Expenses	1,395	294	276	283	277	1,129	297	266	276	271	1,109	305	273	284	278	1,141
Operating Income	149	27	34	49	49	159	48	49	47	48	192	51	52	50	51	205
EBITDAR	313	75	76	92	93	331	87	88	86	87	349	94	95	93	94	375
% of sales	20.2%	23.3%	24.6%	27.9%	28.5%	25.7%	25.3%	28.0%	26.8%	27.4%	26.8%	26.4%	29.1%	27.9%	28.4%	27.9%
Net Income	108	55	22	29	32	138	34	34	33	34	135	37	37	36	37	147
EPS (F.D) (\$) (Excluding Special charges)	\$ 0.89	\$ 0.44	\$ 0.17	\$ 0.23	\$ 0.26	\$ 1.10	\$ 0.27	\$ 0.27	\$ 0.26	\$ 0.27	\$ 1.07	\$ 0.29	\$ 0.30	\$ 0.29	\$ 0.29	\$ 1.17
CFPS (F.D) (\$) (Excluding Special charges)	\$ 1.50	\$ 0.33	\$ 0.37	\$ 0.47	\$ 0.64	\$ 1.81	\$ 0.43	\$ 0.43	\$ 0.42	\$ 0.43	\$ 1.70	\$ 0.48	\$ 0.48	\$ 0.47	\$ 0.48	\$ 1.91

Source: Company reports, RBC Capital Markets estimates



WESTJET (TSX: WJA)

FY Dec. 31 (\$MM's)	2015	Q1/16	Q2/16	Q3/16	Q4/16E	2016E	Q1/17E	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	6,229	5,980	6,671	6,049	24,928	6,509	6,249	6,971	6,321	26,050
% change	3.4%	7.6%	10.6%	13.6%	13.7%	11.3%	4.0%	4.0%	4.0%	4.0%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
Capacity (ASMs in MM)	26,902	7,294	7,116	7,636	7,254	29,300	7,622	7,435	7,980	7,580	30,617	7,965	7,770	8,339	7,922	31,995
% change	5.2%	7.0%	6.9%	10.6%	11.2%	8.9%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Load Factor in (%)	80.0%	82.1%	80.8%	84.0%	80.2%	81.8%	81.7%	80.4%	83.6%	79.8%	81.4%	81.7%	80.4%	83.6%	79.8%	81.4%
change (%pts)	-1.4%	0.5%	2.7%	2.2%	1.8%	1.8%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (cents per RPM)	18.72	17.22	16.51	17.53	18.19	17.37	17.48	16.76	17.79	18.46	17.63	17.74	17.01	18.06	18.74	17.89
% change	-2.0%	-11.6%	-8.9%	-5.3%	-3.0%	-7.2%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
RASM (Revenue per unit of capacity, cents)	15.0	14.1	13.3	14.7	14.6	14.2	14.3	13.5	14.9	14.7	14.4	14.5	13.7	15.1	15.0	14.6
CASM (excl. fuel) (cents)	9.8	10.2	9.9	9.8	10.5	10.1	10.6	10.3	10.3	10.2	10.3	10.6	10.3	10.3	10.4	10.4
Total Revenues	4,029	1,031	949	1,124	1,058	4,163	1,089	1,002	1,187	1,117	4,394	1,155	1,063	1,259	1,184	4,661
% change	1.3%	-4.8%	0.8%	7.6%	10.3%	3.3%	5.5%	5.6%	5.6%	5.6%	5.6%	6.1%	6.1%	6.1%	6.1%	6.1%
Airport Operations	557.3	160.1	145.3	120.2	156.3	581.9	164.2	146.1	120.8	157.1	588.1	171.6	152.6	126.3	164.2	614.6
% change	9%	16%	9%	-15%	8%	4%	3%	1%	1%	1%	1%	4%	4%	4%	4%	4%
Aircraft Fuel	814.5	166.4	182.6	206.4	200.9	756.3	215.5	216.2	234.5	223.5	889.8	236.2	229.9	245.6	233.4	945.2
% change	-26%	-21%	-15%	0%	10%	-7%	30%	18%	14%	11%	18%	10%	6%	5%	4%	6%
Maintenance	229.1	58.7	53.3	62.1	57.3	231.5	60.2	53.6	62.5	57.6	233.9	62.9	56.0	65.3	60.2	244.4
% change	18%	9%	-4%	0%	0%	1%	3%	1%	1%	1%	1%	4%	4%	4%	4%	4%
Sales & Distribution	381.2	108.4	103.1	120.2	110.9	442.7	111.2	103.6	120.8	111.5	447.2	116.2	108.3	126.3	116.5	467.3
% change	1%	10%	16%	22%	16%	16%	3%	1%	1%	1%	1%	4%	5%	4%	4%	4%
Marketing, General & Administrative	232.6	60.9	56.3	65.6	60.5	243.3	62.5	56.5	65.9	60.8	245.7	65.3	59.1	68.9	63.6	256.8
% change	3%	5%	-4%	12%	5%	5%	3%	1%	1%	1%	1%	4%	4%	4%	4%	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	146.2	131.9	153.8	141.9	573.8	152.7	137.9	160.7	148.3	599.6
% change	9%	14%	9%	21%	13%	14%	3%	1%	1%	1%	1%	4%	4%	4%	4%	4%
In-Flight	207.6	58.9	53.4	62.3	57.5	232.1	60.4	53.7	62.6	57.8	234.5	63.1	56.1	65.4	60.4	245.0
% change	21%	22%	-2%	32%	0%	12%	3%	1%	1%	1%	1%	4%	4%	4%	4%	4%
Employee Profit Sharing	101.0	22.5	-1.2	31.6	40.2	93.1	32.7	10.0	35.6	11.2	89.5	34.6	10.6	37.8	11.8	94.9
% change	47%	-55%	-113%	-4%	353%	-8%	45%	-941%	13%	-72%	-4%	6%	6%	6%	6%	6%
EBITDAR (after profit sharing)	1,009	251	193	303	234	982	208	157	280	261	906	217	167	304	276	965
% of sales	25.0%	24.4%	20.4%	27.0%	22.1%	23.6%	19.1%	15.6%	23.6%	23.4%	20.6%	18.8%	15.8%	24.2%	23.3%	20.7%
EPS F.D.	2.89	0.71	0.30	0.97	0.52	2.50	0.33	0.08	0.73	0.65	1.78	0.37	0.12	0.87	0.74	2.09

Source: Company Reports; RBC Capital Markets Estimates



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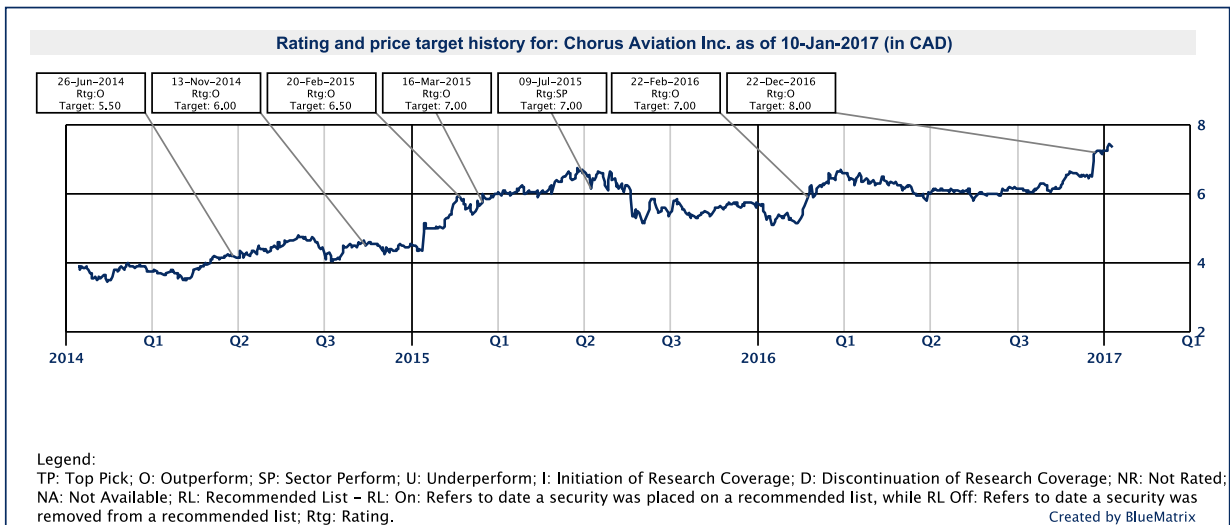
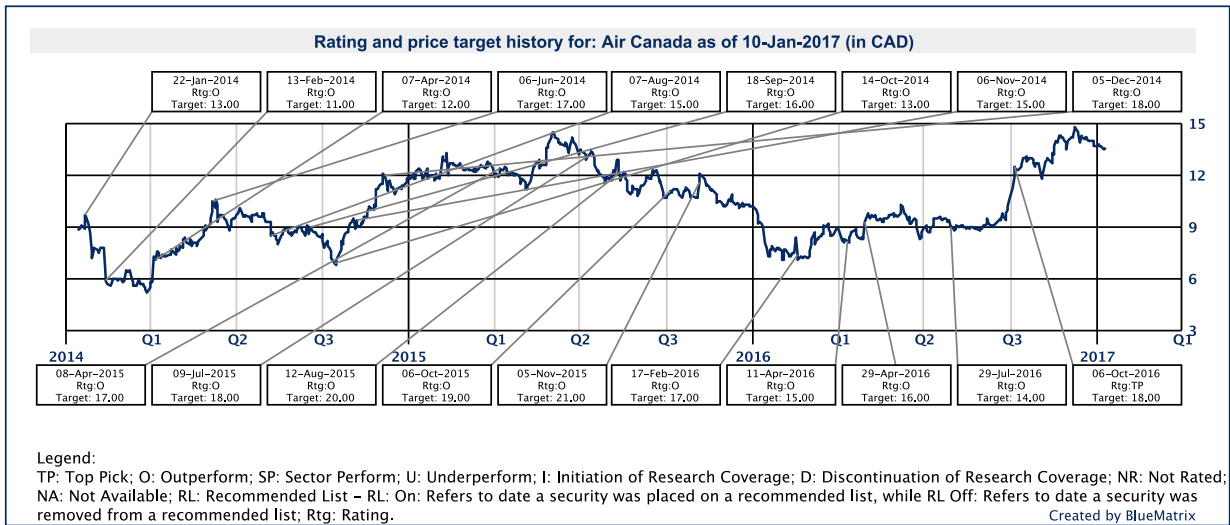
Risk Rating

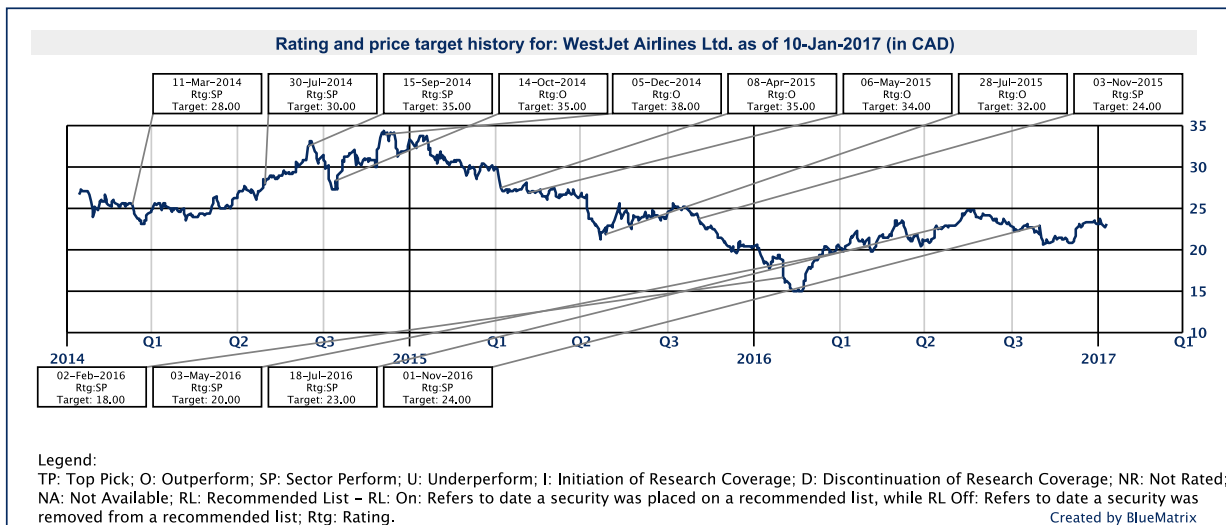
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			Count	Percent
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Air Canada

Valuation

On a 4.2x EV/EBITDAR applied to our 2018 estimates, we derive our price target of \$18.00. 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 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 6.2x EBITDAR multiple to our 2018E EBITDAR at \$375MM, 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, representing an implied all-in upside of 18%, and 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 \$24 price target is based on an EV/EBITDAR approach whereby our 5.0x multiple applied to our 2018 estimate results in a return that is the basis of our Sector Perform rating. Our target multiple is in-line with recent LCC peer multiples, reflective of the execution risk and costs associated with the company's international and regional growth strategy, offset by the carrier's strong balance.

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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