



January 14, 2019

## RBC Flight Deck

### Q4 Preview - Fuel the driving factor to upward estimate revisions

**Q4 preview.** Overall we expect Q4 to be a solid quarter for the Canadian airlines. We expect some benefit from lower fuel prices (though most of the benefit to come in 2019); we point to strength in fare prices (per our Fare Survey); and note that traffic and capacity growth looks largely in-line. Continue to recommend AC, with a key catalyst being the up-coming Investor Day on February 28.

**RBC Fare Survey points to higher prices in Q4.** Our proprietary Fare Survey tracks price changes on selected routes to gauge the direction and magnitude of fare prices in the month. Based on these data, overall fare growth was strong in Q4 as both Air Canada and WestJet showed double digit gains. AC fares are 10.3% higher than Q4 last year, the highest level since we started tracking the data in 2012. WestJet fares ended a volatile year up 12.3% Y/Y.

**Updating estimates ahead of Q4.** Upward changes to our estimates were primarily fuel price driven. We do note, however, the rising level of macroeconomic uncertainty. As a result, we adjusted downward our target multiples, which mitigated somewhat the positive impact from lower fuel costs. Highlights are below, with further details on pages 4-6.

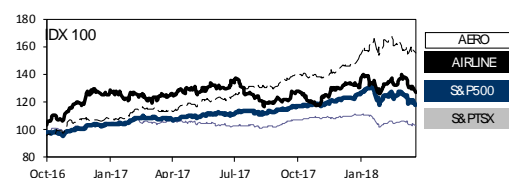
- **AC: Maintaining Outperform, Speculative Risk; increasing price target to \$36 (from \$35).** We kept most of our assumptions unchanged, but the lower fuel curve pushed our 4Q EBITDAR estimate higher to \$556MM (from \$456MM) and consensus at \$503MM.
- **WJA: Maintaining Sector Perform; increasing price target to \$20 (from \$19).** We have updated our estimates to account for lower fuel prices, and slightly modified yield and CASM assumptions. Mostly due to the lower fuel prices, our 4Q EBITDAR estimate moved higher to \$203MM (from \$179MM).
- **CHR: Maintaining Outperform and \$10.00 price target:** We have largely kept estimates unchanged ahead of Q4 results, given CHR is unaffected by changes in fuel prices. We will look for commentary on Chorus's leasing portfolio, and if they expect to close any new leasing deals in the upcoming months.

#### In this edition...

- **RBC Fare Tracker (p. 2):** Seeing positive fare growth from AC and WJA in Q4.
- **Company Tear Sheets (p. 4)**
- **Air Buzz - Bombardier News (p. 5)**



INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&P500	0.6	3.4	(8.8)	Δ
S&P 500	(2.1)	3.0	(6.0)	▼
AMEX Airline	(2.3)	5.6	(18.2)	▼
AMEX Aerospace	(3.0)	4.5	(9.9)	▼



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	2.5	15.6	(11.8)	Δ
Jet Fuel	8.5	18.7	(1.8)	Δ
CAD/USD	(1.2)	(3.0)	5.5	▼
AEROSPACE				
Bombardier	8.8	12.6	(23.1)	Δ
Boeing	7.0	8.3	9.0	Δ
EADS	2.4	6.7	(0.8)	Δ
Embraer	7.1	3.8	(9.0)	Δ
General Dynamics	(6.6)	2.3	(21.4)	▼
Textron	(7.1)	3.5	(18.5)	▼
United Technologies	(8.4)	2.8	(18.9)	▼
N.A. MAINLINE				
Air Canada	(2.4)	0.8	11.9	▼
AMR	(9.3)	(4.4)	(42.9)	▼
Delta	(16.0)	(5.2)	(15.3)	▼
United	(10.3)	(5.1)	8.7	▼
N.A. REGIONAL				
Alaska	(3.3)	0.9	(14.8)	▼
Allegiant	(5.3)	18.4	(23.4)	▼
Chorus Aviation	7.7	8.5	(35.6)	Δ
JetBlue	(7.7)	3.1	(23.3)	▼
SkyWest	(1.2)	7.8	(5.6)	▼
Southwest	(6.4)	3.0	(24.0)	▼
WestJet	(8.9)	(1.1)	(28.4)	▼
INTL AIRLINES				
Lufthansa	2.1	(1.8)	(37.0)	Δ
Air France/KLM	1.0	(4.6)	(34.0)	Δ
BA/Iberia	1.3	(4.3)	(10.0)	Δ
Cathay Pacific	(9.1)	0.0	(1.6)	▼
Air China	(7.7)	(1.2)	(34.7)	▼
China Eastern	(3.9)	1.6	(29.2)	▼
China Southern	(2.3)	4.3	(41.6)	▼
Singapore Airlines	3.4	2.4	(11.2)	Δ
Qantas	11.2	4.8	24.1	Δ

Source: Bloomberg



## Canadian Airlines Q4/18 preview

### Demand moderates in Q4, but fuel decline provide a tailwind

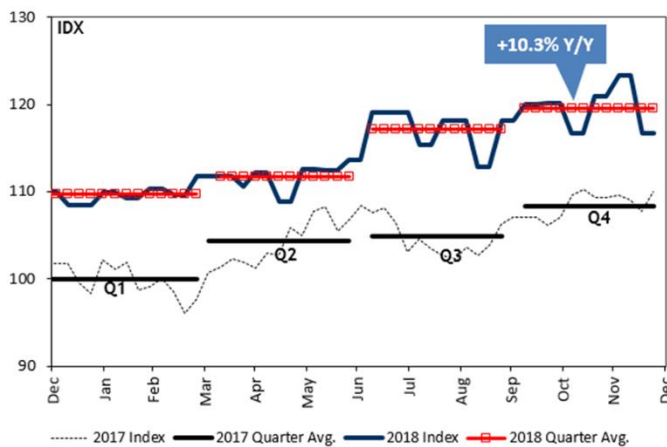
Overall, we expect the fourth quarter to be solid one for both Air Canada and WestJet. In addition to the sudden decline in fuel prices, capacity growth is moderating and fare prices (as measured by our Fare Tracker) are rising. Traffic growth slightly moderated in Q4 - WestJet's traffic statistics rose 4.5% Y/Y and global peers reported an average 5.6% Y/Y increase in Q4. Air Canada has had no problems this year putting through higher fuel costs into fare prices, and so are in a better position to be opportunistic with fare prices as fuel costs have fallen. AC is also set to begin generating steadily increasing FCF with the bulk of re-fleeting now complete, and remains our preferred name in the sector.

### Strong demand through 2018 has supported higher fare prices

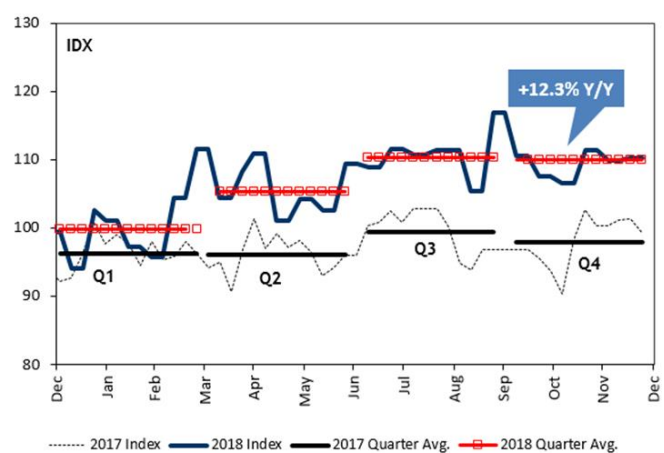
As tracked by the RBC Fare Survey, the Canadian airlines are showing strong, double digit Y/Y fare price growth in Q4. For Air Canada, Q4 was the seventh consecutive quarter of positive growth, with the RBC Fare Survey showing fares increasing +10.3% Y/Y. After adjusting down by 250bp for mix, it implies a yield increase of +7.8% Y/Y. WestJet fares showed some volatility throughout the year, but ultimately fares rose up a very healthy 12.3% Y/Y. After adjusting down by 50bp to account for mix, it implies a positive yield of 11.8% Y/Y.

Exhibit 1: Fares were volatile but ended the year higher double digits Y/Y in Q4

RBC Fare Tracker – Air Canada



RBC Fare Tracker – WestJet



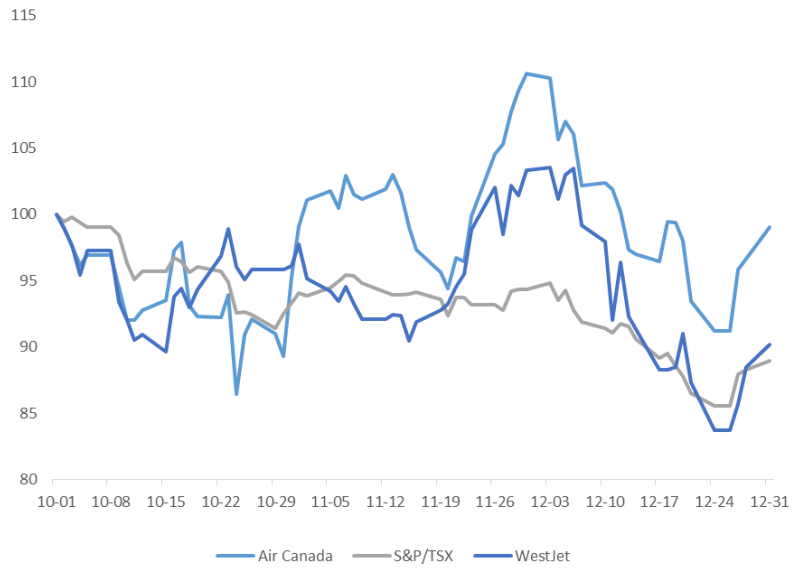
Source: Air Canada, WestJet, RBC Capital Markets estimates

### Airlines Outperform the TSX in a late-quarter spike

Despite the steady decline in fuel prices, the airlines traded relatively flat until late November, and then rallied going into the end of the month. However, the airlines then followed the TSX downward early December, as negative market sentiment came from peak-economic cycle concerns and trade-war angst. There was finally a late quarter spike in the last week of December, which almost brought AC into neutral territory, and pushed WJA just slightly above the market.



Exhibit 2: The Airlines followed the TSX lower in Q4



Source: Factset, RBC Capital Markets

### Q4 Preview: Estimates up on lower fuel prices

Our estimates have changed modestly ahead of the Q4 reporting season, mostly the result of the decline in oil prices, and we slightly modified both yield and CASM assumptions. Overall, our price targets for both Air Canada and WestJet have increased slightly. Details are in the company summaries that follow.



**Air Canada (TSX: AC)**

**Outperform, Spec Risk; \$36 Target (from \$35)**

**SUMMARY**

Market price:	\$27.22	52-Wk High:	\$29.39
Yield (12-mth):	0.0%	52-Wk Low:	\$20.33
Total est. return:	32%	Mkt Cap (MM):	\$7,513
Shares O/S (MM):	276.0	Net Debt (MM):	\$6,393
Float (MM):	\$7,513	EV (MM):	\$13,906

**CONFERENCE CALL DETAILS**

- Friday, February 15th at 8:30AM ET
- 1-800-478-9326

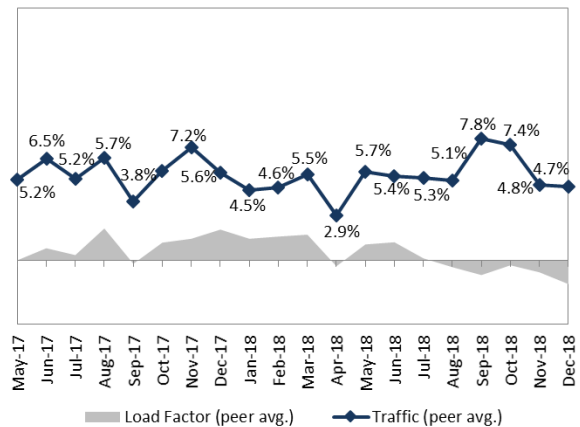
**Q4/18 set-up.** We updated our estimates ahead of the Q4 reporting season, with the most significant change being the much lower forward fuel curve. Our fare tracker is pointing to steady and strong price gains on a year-over-year basis, however we brought down yield in 2019 just slightly with the expectation the airlines may lower prices to stimulate demand. Finally, we recognize there is increased macro uncertainty and have accordingly brought down the target EV/EBITDA multiple to 3.9x (from 4.1x). Our Q4 estimate moves up to \$556MM (from \$456MM) and our 2018, 2019 and 2020 also moved higher.

**Reiterate Outperform rating.** AC continues to be a very attractive investment opportunity in our coverage universe, in our view. We reiterate that the company's debt reduction strategy coupled with significant FCF generation once the fleet renewal is complete will lead to increased shareholder returns through a buyback and eventual dividend. Maintain Outperform.

**STOCK SET-UP**

<b>Q4/18 Performance</b>	
Absolute vs. S&P TSX	(1%) 1,011bps
<b>Short Interest (Days to Cover)</b>	
Current	1.0
<b>Analyst Sentiment</b>	
Outperform	93%
Sector Perform	7%
Underperform	0%

**TRAFFIC DATA**



	Q4/18E			2018E			2019E			2020E		
	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var
Traffic: RPMs (% chg)	6.0%	6.0%	0bp	8.2%	8.2%	0bp	5.0%	5.0%	0bp	2.5%	2.5%	0bp
Capacity: ASMs (% chg)	5.2%	5.2%	0bp	7.0%	7.0%	0bp	5.0%	5.0%	0bp	3.0%	3.0%	0bp
Load Factor (%pts)	80.8%	80.8%	0bp	83.2%	83.2%	0bp	83.2%	83.2%	0bp	82.8%	82.8%	0bp
Yield (% chg)	5.1%	5.1%	0bp	2.7%	2.7%	0bp	2.7%	2.0%	-75bp	2.0%	2.0%	0bp
RASM (% chg)	6.0%	6.0%	0bp	4.1%	4.1%	0bp	2.8%	2.1%	-73bp	1.5%	1.5%	0bp
Adj. CASM ex fuel+other (% chg)	0.9%	0.9%	0bp	0.4%	0.4%	0bp	0.9%	0.6%	-30bp	1.1%	1.1%	0bp
Avg Jet Fuel Price: (\$/Ltr)	\$0.81	\$0.77	-4.8%	\$0.80	\$0.78	-2.5%	\$0.80	\$0.72	-10.4%	\$0.74	\$0.72	-2.6%
Revenue	4,157	4,157	0.0%	17,976	17,976	0.0%	19,296	19,172	-0.6%	20,126	19,996	-0.6%
Expenses	3,701	3,601	-2.7%	15,212	15,112	-0.7%	15,920	15,412	-3.2%	16,358	16,022	-2.1%
<b>EBITDAR</b>	<b>456</b>	<b>556</b>	<b>22.1%</b>	<b>2,764</b>	<b>2,864</b>	<b>3.6%</b>	<b>3,376</b>	<b>3,760</b>	<b>11.4%</b>	<b>3,768</b>	<b>3,974</b>	<b>5.5%</b>
EPS ex-one time items (\$)	0.21	0.57		2.46	2.83		3.54	4.59		4.48	5.09	
Consensus EBITDAR		503			2,808			3,327			3,704	

Source: Bloomberg, Factset, RBC Capital Markets estimates, Company reports

Priced as of market close January 11, 2019



**Chorus Aviation (TSX : CHR)**

**Outperform; \$10 Target**

**SUMMARY**

Market price:	6.29	52-Wk High:	\$9.86
Yield (12-mth):	7.6%	52-Wk Low:	\$4.54
Total est. return:	67%	Mkt Cap (MM)	\$882
Shares O/S (MM)	140.2	Net Debt (MM)	\$1,274
Float (MM):	\$882	EV (MM):	\$2,156

**CONFERENCE CALL DETAILS**

- Friday February 22<sup>nd</sup> @ 9:30AM
- 1-888-231-8191

**Q4/18 set-up:** We have largely kept estimates unchanged ahead of Q4 results. Unlike AC and WJA, Chorus is unaffected by lower fuel prices because they bill AC directly as per the CPA. We believe the valuation level has recently been weighed down by a combination of rising interest rates and macro concerns, and the resulting impact on both the CPA and aircraft leasing demand. However, we note that management now provides disclosure by segment, which may alleviate some uncertainty in term of the performance of the regional leasing division.

**Progress on leasing subsidiary.** As at Q3, Chorus Aviation Capital (CAC) has a committed fleet of 33 aircraft, spanning 12 customers in 12 counties. For the upcoming quarter, we will be looking for management’s commentary on the deployment of the remaining capital raised for CAC, and new commentary regarding potential lease deals.

**Maintain Outperform.** The stability of cash flows under the CPA presents an attractive yield, while Chorus’s progress into aircraft leasing provides a platform for growth. Accordingly, we still believe the stock presents an attractive risk adjusted return profile.

**STOCK SET-UP**

**Q4/18 Performance**

Absolute vs. S&P TSX (26%)  
(1,502bps)

**Short Interest (Days to Cover)**

Current 1.3

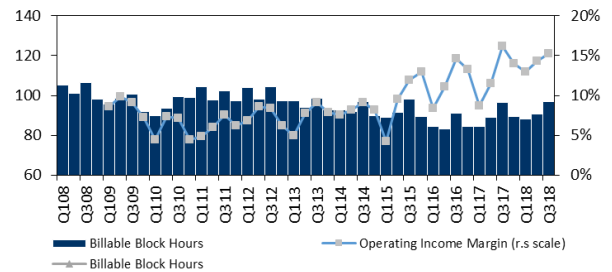
**Analyst Sentiment**

Outperform 100%

Sector Perform -

Underperform 0%

**OPERATING METRICS**



	Q4/18E			2018E			2019E			2020E		
	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var
<b>Revenue breakdown</b>												
Controllable Revenue	253	253	0.0%	873	873	0.0%	1,015	1,015	0.0%	1,034	1,057	2.2%
Leasing under CPA	24	24	0.0%	117	117	0.0%	97	97	0.0%	97	97	0.0%
Margin compensation	28	28	0.0%	112	112	0.0%	112	112	0.0%	112	112	0.0%
Incentives	63	63	0.0%	12	12	0.0%	16	16	0.0%	16	16	0.0%
Pass through revenue	72	72	0.0%	264	264	0.0%	260	260	0.0%	262	262	0.0%
Passenger revenue	440	440	0.0%	1,377	1,377	0.0%	1,500	1,500	0.0%	1,521	1,543	1.5%
Other revenue	26	26	0.0%	112	112	0.0%	127	127	0.0%	143	143	0.0%
<b>Total Revenues</b>	<b>466</b>	<b>466</b>	<b>0.0%</b>	<b>1,489</b>	<b>1,489</b>	<b>0.0%</b>	<b>1,627</b>	<b>1,627</b>	<b>0.0%</b>	<b>1,663</b>	<b>1,686</b>	<b>1.4%</b>
Total Expenses	335	335	0.0%	1,273	1,273	0.0%	1,355	1,355	0.0%	1,377	1,399	1.7%
<b>EBITDAR</b>	<b>116</b>	<b>116</b>	<b>0.0%</b>	<b>434</b>	<b>434</b>	<b>0.0%</b>	<b>487</b>	<b>487</b>	<b>0.0%</b>	<b>479</b>	<b>502</b>	<b>4.7%</b>
<i>Consensus EBITDAR</i>		116			422			477			512	

Source: Bloomberg, RBC Capital Markets estimates, Company reports

Priced as of market close January 11, 2019



**WestJet (TSX: WJA)**

**SUMMARY**

Market price:	\$17.53	52-Wk High:	\$26.72
Yield (12-mth):	3.1%	52-Wk Low:	\$16.71
Total est. return:	17%	Mkt Cap (MM):	\$2,055
Shares O/S (MM):	117.2	Net Debt (MM):	\$730
Float (MM):	\$2,016	EV (MM):	\$2,785

**CONFERENCE CALL DETAILS**

- Tuesday, February 5<sup>th</sup> @ 10:00AM
- 416-915-3239

**Q4/18 set up.** We updated our estimates ahead of the Q4 reporting season, with the most significant change being the much lower forward fuel curve. We did partially offset this with lower yield estimates because we suspect the airlines may take some room to adjust fare prices in order stimulate demand. In addition, we slightly lowered our valuation multiple to account for increased macro concerns. Mostly due to the lower fuel prices, our Q4 EBITDAR estimate moved higher to \$203MM (from \$179MM). Our 2018, 2019 and 2020 estimates are also modestly higher, leading to new price target of \$20 (from \$19).

**Focus of the call.** We expect the upcoming quarterly call to focus on: 1) any changes in forward demand given traffic numbers have been slightly weaker the past few months, and 2) status of new initiatives, including Swoop sales and wide-body growth initiatives.

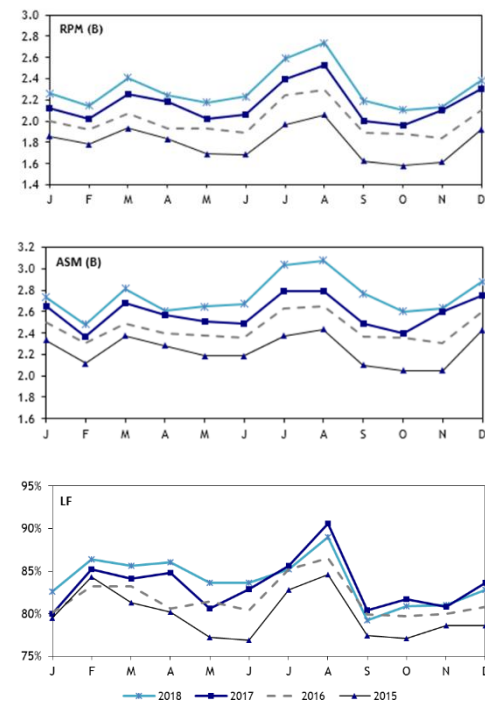
**Maintaining Sector Perform.** There continues to be a lot of uncertainty surrounding the stock, particularly given the number of new initiatives during a backdrop of a slowing economy and rising capacity. While we remain cautiously optimistic, we do note that the 2019 guidance ranges given depend on positive traffic growth and stable oil prices – obviously outside the control of management.

**Sector Perform; \$20 Target (from \$19)**

**STOCK SET-UP**

<b>Q4/18 Performance</b>	
Absolute	(10%)
vs. S&P TSX	129bps
<b>Short Interest (Days to Cover)</b>	
Current	3.1
<b>Analyst Sentiment</b>	
Outperform	12%
Sector Perform	65%
Underperform	24%

**TRAFFIC DATA**



	RBC CM Q4/18E			RBC CM 2018E			RBC CM 2019E			2020E		
	Old	New	Var	Old	New	Var	Old	New	Var	Old	New	Var
Traffic: RPMs (% chg)	5.0%	4.5%	-47bp	6.6%	6.5%	-11bp	6.5%	6.5%	0bp	6.5%	6.5%	0bp
Capacity: ASMs (% chg)	5.5%	5.9%	38bp	6.2%	6.3%	9bp	7.5%	7.5%	0bp	7.0%	7.0%	0bp
Load Factor (%pts)	-0.4%	-1.0%	-65bp	0.3%	0.2%	-16bp	-0.8%	-0.8%	0bp	-0.4%	-0.4%	0bp
Yield (% chg)	1.0%	1.8%	80bp	-1.6%	-1.4%	19bp	2.0%	1.9%	-10bp	1.5%	1.0%	-50bp
RASM (% chg)	0.5%	0.5%	-1bp	-1.2%	-1.2%	0bp	1.1%	1.0%	-10bp	1.0%	0.5%	-50bp
Adj. CASM ex fuel+other (% chg)	1.2%	1.8%	65bp	2.1%	2.3%	17bp	2.2%	2.2%	1bp	1.4%	1.3%	-6bp
Avg Jet Fuel Price (\$/Ltr)	0.83	0.78	-5.8%	0.80	0.78	-2.4%	0.80	0.72	-10.4%	0.79	0.73	-7.9%
Revenue	1,185	1,189	0.3%	4,725	4,729	0.1%	5,134	5,133	0.0%	5,549	5,521	-0.5%
Expenses	1,006	986	-2.0%	4,012	3,992	-0.5%	4,323	4,200	-2.8%	4,654	4,560	-2.0%
<b>EBITDAR</b>	<b>179</b>	<b>203</b>	<b>13.5%</b>	<b>713</b>	<b>737</b>	<b>3.4%</b>	<b>811</b>	<b>933</b>	<b>15.0%</b>	<b>895</b>	<b>961</b>	<b>7.4%</b>
Consensus EBITDAR		176			709			870			1,033	

Source: Bloomberg, RBC Capital Markets estimates, Company reports

Priced as of market close January 11, 2019



## 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.

### Bombardier

#### Commercial Aircraft

- **Airbus to build additional aircraft developed by Bombardier on U.S. Gulf Coast:** The aerospace industry on the U.S. Gulf Coast received a boost Thursday as Airbus said it will fulfil two new aircraft orders at an expanding manufacturing operation in Alabama. The European aircraft maker said 120 passenger aircraft ordered by JetBlue Airways and the startup airline Moxy will be built in a new factory near the company's existing plant in Mobile, Alabama. Construction on the plant will begin later this month, the company said. JetBlue and Moxy each ordered 60 of the A220-300 aircraft manufactured by Airbus. The plant will be located beside a factory where Airbus already produces the A320 aircraft in Mobile. (Source: Montreal Gazette, January 3rd)

#### Business jets

- **Bombardier Global 7500 enters service.** The GE Passport-powered twinjet was launched in 2010 as the Global 7000. It was rebranded in May to reflect a 300nm (560km) increase in maximum operating range during flight testing to 7,700nm. The Global 7500 has the longest cabin in the traditional business jet market, at 16.5m (54ft) and is described by Bombardier as the only aircraft in its segment with "four customisable living areas". Bombardier has secured over 100 orders for the Global 7500 and says production is sold out until 2021. The company forecasts deliveries of between 15 and 20 aircraft in 2019 and between 35 and 40 in 2020. Customers include former Formula 1 racing driver and Bombardier brand ambassador Niki Lauda, Hong Kong charter and management company HK Bellawings Jet, fractional ownership giant NetJets, and Thomas Flohr, founder of luxury charter provider and long-time Bombardier customer VistaJet. (Source: Flight Global, December 20th)
- **Bombardier says tensions with China, Saudis won't hurt business jet sales:** Bombardier brushed off any concerns that tensions between the federal government and China as well as with Saudi Arabia pose a threat to business jet sales, on which the plane and train maker is staking its financial turnaround. Relations between Ottawa and Beijing have been strained since Canadian authorities detained Huawei Technologies Co.'s chief financial officer Meng Wanzhou in Vancouver on Dec. 1, which preceded the detention of three Canadians in China in less than one week. Bombardier, which celebrated the entry into service of its US\$73-million Global 7500 business jet Thursday, said the product line is resistant to diplomatic and market fluctuations. "If we see one region going through geopolitical slowdowns, there are usually other regions that are either coming up or experiencing booms where we can profit," said spokesman Mark Masluch. Bombardier delivered 138 of the 677 business jets shipped by the industry in 2017, securing 20 per cent of the global market, according to the General Aviation Manufacturers Association. That number topped Gulfstream's 120 business jet deliveries. (Source: BNN Bloomberg, December 20th)



## Valuation

### Air Canada

On a 3.9x EV/EBITDAR applied to our 2020 estimates, we derive our price target of \$36. Our discount to the peer legacy group average is 1.1x. 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 our target include very high operating leverage given a fixed cost structure, above-average sensitivity to the economy, exposure to volatile fuel prices and the risk of terrorism and epidemics. Air Canada is not hedged to changes in jet fuel prices.

### Chorus Aviation

Our \$10.00 price target on CHR shares is derived from an EV/EBITDAR multiple approach. We are applying a 6.5x EBITDAR multiple to our 2020E EBITDAR at \$490MM, which is a premium to the regional jet peers owing to the anticipated growth and diversification into regional aircraft leasing. This generates our \$10.00 price target, which is the basis of our Outperform rating.

Chorus Aviation's revenues and operating earnings are highly dependent on the CPA with Air Canada. The CPA agreement provides for a fixed fee per aircraft and other services rendered. Significant changes in the average daily utilization of aircraft by Air Canada covered by the CPA could impact the revenues and earnings generated under the CPA. Increases in Controllable Costs above the level estimated would reduce the margins earned on Scheduled Flights Revenue.

### WestJet

Our \$20 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 mainline peer multiples, reflective of the execution risk and costs associated with the company's international and regional growth strategy.

Risks to our price target and estimates include the price of jet fuel, which is tied to oil prices, the strength of the domestic economy, the competitive environment, and the ability to maintain a growth company valuation. Airline stocks in general are volatile and can significantly underperform or outperform the broader market on sentiment.



Appendix 1: Comparables

Symbol	11-Jan-19 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				
<b>Discount Airlines</b>																	
WestJet	WJA-CA	C\$	\$17.53	3.8x	5.3x	4.7x	4.3x	0.8x	0.8x	0.7x	0.7x	22%	15%	16%	16%	2.2x	3,808
Southwest	LUV-US	US\$	\$48.52	5.8x	6.3x	5.7x	5.5x	1.3x	1.3x	1.2x	1.1x	23%	21%	21%	21%	0.2x	28,351
JetBlue	JBLU-US	US\$	\$17.25	4.5x	5.5x	4.6x	4.2x	1.0x	0.9x	0.8x	0.8x	22%	17%	19%	19%	1.1x	7,017
<b>Discount Average</b>				<b>4.7x</b>	<b>5.7x</b>	<b>5.0x</b>	<b>4.6x</b>	<b>1.1x</b>	<b>1.0x</b>	<b>0.9x</b>	<b>0.9x</b>	<b>22%</b>	<b>17%</b>	<b>19%</b>	<b>19%</b>	<b>0.7x</b>	
<b>Mainline Airlines</b>																	
Air Canada	AC-CA	C\$	\$27.22	4.6x	4.9x	4.0x	3.6x	0.8x	0.7x	0.7x	0.7x	18%	15%	17%	19%	1.7x	13,462
Delta Air Lines	DAL-US	US\$	\$48.56	5.1x	5.4x	4.7x	4.6x	1.0x	1.0x	0.9x	0.9x	21%	18%	20%	19%	1.1x	43,130
United Continental	UAL-US	US\$	\$80.07	5.5x	5.5x	4.9x	4.7x	0.9x	0.9x	0.8x	0.8x	17%	16%	17%	16%	1.9x	35,608
American Airlines	AAL-US	US\$	\$31.80	5.5x	6.5x	5.6x	5.7x	1.0x	1.0x	0.9x	0.9x	19%	15%	16%	15%	3.7x	42,783
<b>Mainline Average</b>				<b>5.2x</b>	<b>5.6x</b>	<b>4.8x</b>	<b>4.7x</b>	<b>1.0x</b>	<b>0.9x</b>	<b>0.8x</b>	<b>0.8x</b>	<b>19%</b>	<b>16%</b>	<b>18%</b>	<b>17%</b>	<b>2.2x</b>	
<b>Regional Airlines</b>																	
Chorus Aviation	CHR-CA	C\$	\$6.29	8.1x	7.0x	6.1x	5.4x	2.1x	1.9x	1.8x	1.6x	25%	28%	29%	30%	4.4x	2,631
SkyWest Inc.	SKYW-US	US\$	\$48.04	5.8x	6.9x	6.9x	6.9x	2.0x	2.0x	2.0x	2.0x	35%	29%	29%	29%	4.2x	6,408
<b>Regional Average</b>				<b>6.9x</b>	<b>7.0x</b>	<b>6.5x</b>	<b>6.1x</b>	<b>2.0x</b>	<b>2.0x</b>	<b>1.9x</b>	<b>1.8x</b>	<b>30%</b>	<b>28%</b>	<b>29%</b>	<b>29%</b>	<b>4.3x</b>	
<b>Airline Average</b>				<b>5.4x</b>	<b>5.9x</b>	<b>5.2x</b>	<b>5.0x</b>	<b>1.2x</b>	<b>1.2x</b>	<b>1.1x</b>	<b>1.0x</b>	<b>22%</b>	<b>19%</b>	<b>20%</b>	<b>20%</b>	<b>2.3x</b>	

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at market close on January 11, 2019



Appendix 2: AC Model

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	0.174	0.177	0.180	0.183	0.179	0.182
% change	-6.4%	0.8%	0.4%	2.0%	3.4%	5.1%	2.7%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
RASM (Rev per unit of capacity, cents)	14.2	14.0	14.0	14.4	15.1	14.5	14.6	14.3	14.7	15.5	14.8	14.9	15.1
CASM (excl. fuel) (cents)	11.5	11.1	12.7	11.0	9.7	11.8	11.2	12.4	11.1	10.1	11.7	11.2	11.3
<b>Total Revenues</b>	<b>14,677</b>	<b>16,252</b>	<b>4,071</b>	<b>4,333</b>	<b>5,415</b>	<b>4,157</b>	<b>17,976</b>	<b>4,330</b>	<b>4,627</b>	<b>5,786</b>	<b>4,429</b>	<b>19,172</b>	<b>19,996</b>
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%	17.0%	16.1%	13.5%	16.8%	15.7%	15.8%
Aircraft Fuel - total	2606	3339	939	1099	1371	983	4392	945	1024	1248	965	4183	4333
% Sales	17.8%	20.5%	23.1%	25.4%	25.3%	23.6%	24.4%	21.8%	22.1%	21.6%	21.8%	21.8%	21.7%
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%	4.6%	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%	2.5%	2.3%	2.4%	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%	5.0%	6.5%	5.6%	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%	5.4%	5.4%	5.1%	5.0%	5.2%	5.1%
Communications and information tech	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%	1.7%	1.6%
Other	3268	3526	918	932	951	956	3757	923	998	1048	974	3944	4113
% 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 l	2027	2137	542	588	548	582	2260	577	628	586	620	2410	2513
% 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%
<b>Total Operating Costs</b>	<b>11,420</b>	<b>12,786</b>	<b>3,398</b>	<b>3,573</b>	<b>4,064</b>	<b>3,492</b>	<b>14,527</b>	<b>3,483</b>	<b>3,639</b>	<b>4,122</b>	<b>3,566</b>	<b>14,810</b>	<b>15,401</b>
<b>EBITDAR</b>	<b>2,768</b>	<b>2,928</b>	<b>397</b>	<b>646</b>	<b>1,265</b>	<b>556</b>	<b>2,864</b>	<b>564</b>	<b>871</b>	<b>1,575</b>	<b>750</b>	<b>3,760</b>	<b>3,974</b>
% of sales	18.9%	18.0%	9.8%	14.9%	23.4%	13.4%	15.9%	13.0%	18.8%	27.2%	16.9%	19.6%	19.9%
<b>EPS (F.D) (\$) (Exc. Special charges)</b>	<b>\$ 4.11</b>	<b>\$ 4.05</b>	<b>\$ (0.19)</b>	<b>\$ 0.41</b>	<b>\$ 2.03</b>	<b>\$ 0.57</b>	<b>\$ 2.83</b>	<b>\$ 0.25</b>	<b>\$ 0.99</b>	<b>\$ 2.56</b>	<b>\$ 0.80</b>	<b>\$ 4.59</b>	<b>\$ 5.09</b>

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	6,616	27,587	7,254	7,078	8,005	7,046	29,382	7,725	7,538	8,525	7,504	31,292
% change	8.1%	6.5%	6.1%	8.6%	4.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	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	8,627	8,516	9,546	8,717	35,406	9,231	9,112	10,214	9,327	37,885
% change	5.8%	4.3%	4.7%	10.0%	5.9%	6.3%	7.4%	7.5%	7.5%	7.5%	7.5%	7.0%	7.0%	7.0%	7.0%	7.0%
Load Factor in (%)	83.6%	84.8%	83.9%	84.6%	81.6%	83.8%	84.1%	83.1%	83.9%	80.8%	83.0%	83.7%	82.7%	83.5%	80.5%	82.6%
change (%pts)	1.8%	1.8%	1.1%	-1.1%	-1.0%	0.2%	-0.7%	-0.8%	-0.8%	-0.8%	-0.8%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%
Yield (cents per RPM)	17.39	17.50	16.36	16.78	17.98	17.14	17.83	16.67	17.10	18.32	17.47	18.01	16.84	17.27	18.50	17.64
% change	1.1%	0.3%	-3.2%	-4.4%	1.8%	-1.4%	1.9%	1.9%	1.9%	1.9%	1.9%	1.0%	1.0%	1.0%	1.0%	1.0%
RASM (Revenue per unit of capacity, cents)	14.5	14.8	13.7	14.2	14.7	14.4	15.0	13.9	14.3	14.8	14.5	15.1	13.9	14.4	14.9	14.6
CASM (excl. fuel) (cents)	10.1	10.6	10.3	9.5	10.5	10.2	10.8	10.4	9.7	10.6	10.4	11.0	10.5	9.9	10.8	10.5
<b>Total Revenues</b>	<b>4,505.0</b>	<b>1,191.7</b>	<b>1,087.6</b>	<b>1,260.9</b>	<b>1,189.2</b>	<b>4,729.4</b>	<b>1,293.5</b>	<b>1,180.2</b>	<b>1,368.7</b>	<b>1,290.6</b>	<b>5,133.1</b>	<b>1,391.4</b>	<b>1,269.5</b>	<b>1,472.2</b>	<b>1,388.2</b>	<b>5,521.4</b>
% change	9.3%	6.9%	2.8%	3.8%	6.4%	5.0%	8.5%	8.5%	8.5%	8.5%	8.5%	7.6%	7.6%	7.6%	7.6%	7.6%
Airport Operations	609.3	172.9	161.8	139.8	168.1	642.6	185.8	167.3	144.5	180.7	678.3	198.8	179.0	154.7	193.3	725.8
% change	5%	2%	5%	10%	6%	5%	7%	3%	3%	8%	6%	7%	7%	7%	7%	7%
Aircraft Fuel	950.0	281.2	302.3	343.3	287.8	1214.5	276.8	277.1	307.0	287.8	1148.7	303.9	301.0	329.2	308.6	1242.7
% change	24%	19%	34%	44%	14%	28%	-2%	-8%	-11%	0%	-5%	10%	9%	7%	7%	8%
Maintenance	242.6	63.4	59.4	72.3	61.7	256.7	68.2	61.4	74.7	66.3	270.5	72.9	65.7	80.0	70.9	289.5
% change	5%	2%	5%	10%	6%	6%	7%	3%	3%	8%	5%	7%	7%	7%	7%	7%
Sales & Distribution	463.9	117.1	114.8	139.8	119.3	491.0	125.9	118.7	144.5	128.2	517.3	134.7	127.0	154.7	137.2	553.6
% change	5%	2%	5%	10%	6%	6%	7%	3%	3%	8%	5%	7%	7%	7%	7%	7%
Marketing, General & Administrative	254.9	65.8	62.6	76.3	65.1	269.8	70.7	64.8	78.8	69.9	284.3	75.7	69.3	84.4	74.8	304.2
% change	5%	2%	5%	10%	6%	6%	7%	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	165.4	151.1	184.0	163.2	663.7	177.0	161.7	196.8	174.6	710.1
% change	5%	2%	5%	10%	6%	6%	7%	3%	3%	8%	5%	7%	7%	7%	7%	7%
In-Flight	243.2	63.6	59.5	72.4	61.8	257.3	68.3	61.5	74.9	66.4	271.2	73.1	65.8	80.1	71.1	290.2
% change	5%	2%	5%	10%	6%	6%	7%	3%	3%	8%	5%	7%	7%	7%	7%	7%
Employee Profit Sharing	46.8	6.4	-3.3	8.3	3.6	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBITDAR (after profit sharing)</b>	<b>1,002.6</b>	<b>200.9</b>	<b>117.9</b>	<b>215.4</b>	<b>203.2</b>	<b>737.5</b>	<b>236.8</b>	<b>166.6</b>	<b>292.5</b>	<b>237.3</b>	<b>933.2</b>	<b>241.0</b>	<b>169.1</b>	<b>304.1</b>	<b>247.2</b>	<b>961.5</b>
% of sales	22.3%	16.9%	10.8%	17.1%	17.1%	15.6%	18.3%	14.1%	21.4%	18.4%	18.2%	17.3%	13.3%	20.7%	17.8%	17.4%
<b>EPS F.D.</b>	<b>2.38</b>	<b>0.32</b>	<b>(0.18)</b>	<b>0.40</b>	<b>0.22</b>	<b>0.77</b>	<b>0.42</b>	<b>0.07</b>	<b>0.76</b>	<b>0.40</b>	<b>1.66</b>	<b>0.39</b>	<b>0.03</b>	<b>0.77</b>	<b>0.39</b>	<b>1.58</b>

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)	22.24158	24.54795	23.47832	20.94021	25.63567	23.54781	26.2584	24.77015	22.21427	27.28868	25.01765	26.95942	25.57088	22.8218	28.2241	25.77521
% change	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%
<b>Chorus Aviation Income Statement (\$MM)</b>																
<b>Revenue</b>	<b>1,355</b>	<b>348</b>	<b>378</b>	<b>367</b>	<b>397</b>	<b>1,489</b>	<b>390</b>	<b>411</b>	<b>398</b>	<b>428</b>	<b>1,627</b>	<b>406</b>	<b>426</b>	<b>411</b>	<b>443</b>	<b>1,686</b>
% 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%
Food and beverage	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
% Sales	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
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
<b>EBITDAR</b>	<b>374</b>	<b>99</b>	<b>108</b>	<b>111</b>	<b>116</b>	<b>434</b>	<b>120</b>	<b>122</b>	<b>122</b>	<b>124</b>	<b>487</b>	<b>126</b>	<b>126</b>	<b>124</b>	<b>126</b>	<b>502</b>
% 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%
<b>EBITDA</b>	<b>275</b>	<b>75</b>	<b>84</b>	<b>86</b>	<b>91</b>	<b>336</b>	<b>95</b>	<b>97</b>	<b>97</b>	<b>100</b>	<b>389</b>	<b>101</b>	<b>101</b>	<b>100</b>	<b>102</b>	<b>404</b>
% 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%
<b>Net Income</b>	<b>180</b>	<b>-9</b>	<b>10</b>	<b>37</b>	<b>41</b>	<b>79</b>	<b>47</b>	<b>49</b>	<b>49</b>	<b>51</b>	<b>196</b>	<b>54</b>	<b>54</b>	<b>54</b>	<b>56</b>	<b>217</b>
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



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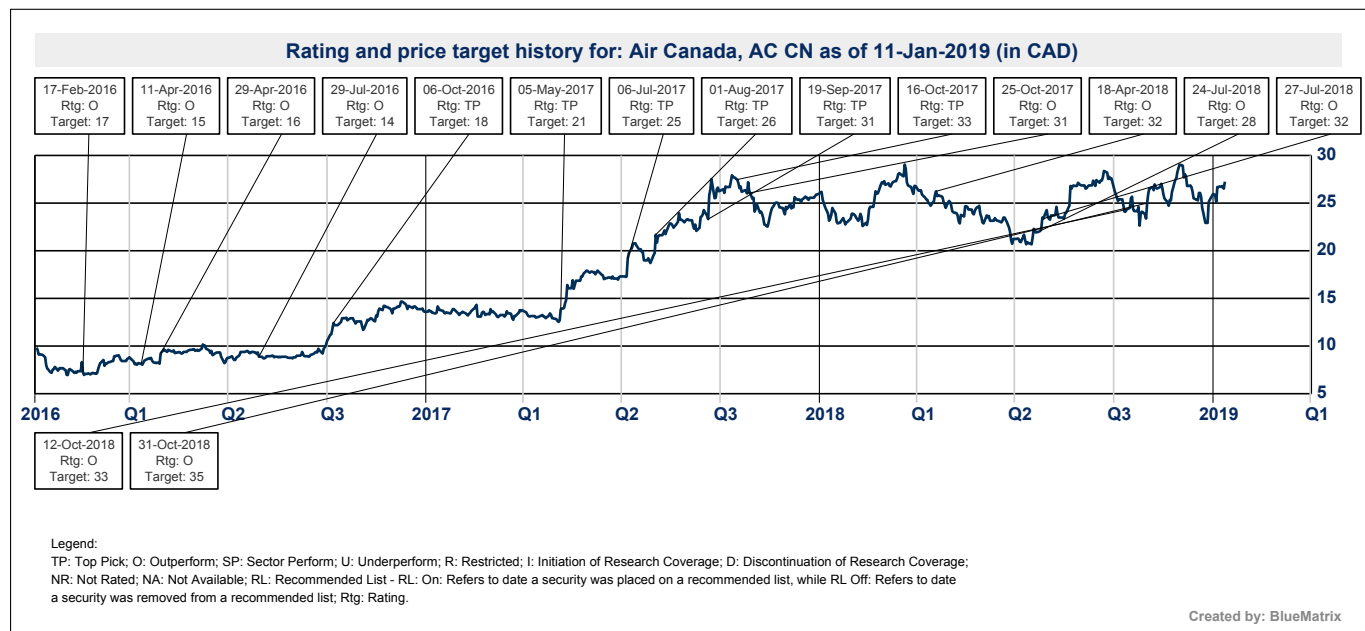
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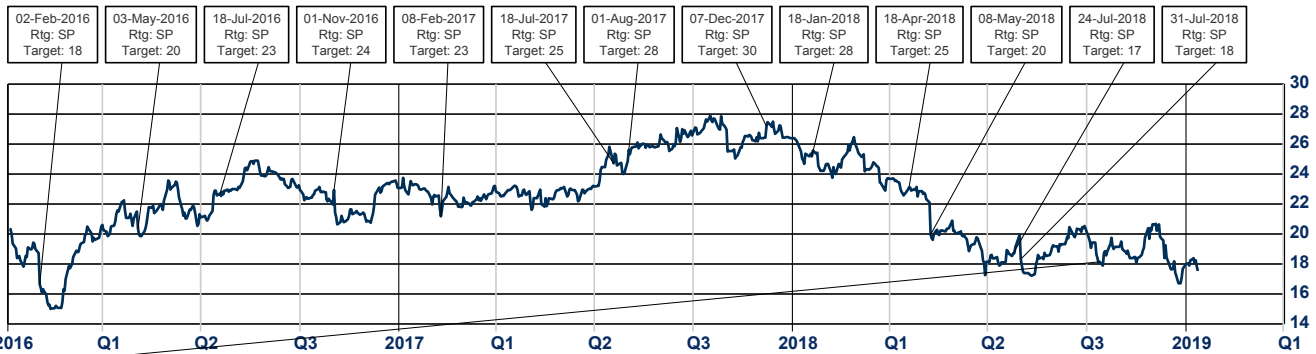
Rating and price target history for: Chorus Aviation Inc., CHR CN as of 11-Jan-2019 (in CAD)



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Legend:  
 TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; R: Restricted; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage;  
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### Air Canada



## Valuation

Our \$36.00 target price is based on a 3.9x 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.

## Chorus Aviation Inc.

### Valuation

Our \$10.00 price target is derived from a sum-of-the-parts valuation. We value Chorus's core-CPA segment at a 6.0x EV/EBITDAR multiple (in line with peers) 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 \$10.00 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 \$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

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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