



July 12, 2019

## RBC Flight Deck

### Q2 Preview - Clear skies ahead

**Q2 preview.** As we look ahead to the upcoming quarterly results, we see overall fundamentals remaining favorable, with evidence of declining capacity among the North American carriers. We also note Q2 is usually not a seasonally strong quarter for the airlines, but can provide some early indications into demand during the all-important summer season. Further, our Fare Tracker is pointing to higher yields across all segments, which bodes well for RASM growth in the quarter.

**RBC Fare Survey points to higher prices in Q2.** Our proprietary Fare Survey tracks price changes on selected routes to gauge the direction and magnitude of fare prices in the quarter. Based on this data, overall fare growth was solid in Q2. For AC, this is the ninth consecutive quarter that our Survey has registered positive growth, with the RBC Fare Survey index up +7.9% Y/Y. WJA fares showed a spike towards the end of the quarter, and ultimately our fare survey points to fares up a healthy 10.7% Y/Y in Q2.

**Updating estimates ahead of Q2.** Our estimates remain mostly unchanged ahead of the quarter; however, we have updated for the forward fuel curve. This resulted in a higher price target for AC to \$48 (from \$46), while our targets for WJA and CHR remain unchanged. Highlights are below, with further details on pages 5-7.

- AC: Maintaining Outperform; Price Target increased to \$48 (from \$46).** We are slightly adjusting our Q2 estimates, mostly due to the lower forward fuel curve. This has moved our EBITDA margin for 2019 E back to 19.1% (within the previous guidance range of 19-22% from Investor day). We do not expect management to provide additional guidance this quarter, given the 737 MAX remains grounded; however, we may hear more detail in terms of expected timeline. We may also hear commentary related to the integration of Transat, and how this may change AC's Vacation segment strategy.
- WJA: Maintaining Sector Perform; maintaining Price Target at \$31.** We have adjusted Q2 estimates to account for a slightly lower forward fuel curve. We have otherwise kept all traffic, capacity and yield assumptions unchanged. As a result, our 2019 and 2020 estimates moved modestly higher, however we adjusted the valuation multiple lower to 5.0x (from 5.2x) to maintain the Price Target at \$31 (the agreed takeout price by Onex).
- CHR: Maintaining Outperform and \$9.50 price target:** We have largely kept estimates unchanged ahead of Q2 results. While valuation levels have recovered somewhat since the extended deal with Air Canada, we still believe the market is not fully appreciating the value of the current leasing business. We will listen for updates for the regional leasing business and opportunities for the company.

#### In this edition...

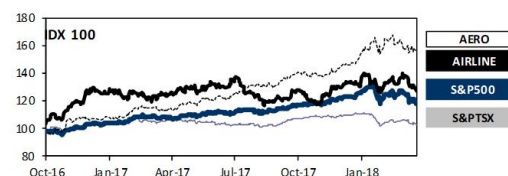
- **RBC Fare Tracker (p. 2):** Positive Q2 fare growth
- **Company Tear Sheets (p. 5)**

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INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTX	1.8	15.3	0.4	Δ
S&P 500	3.6	18.7	6.9	Δ
AMEX Airline	4.0	15.4	2.0	Δ
AMEX Aerospace	0.1	21.5	5.3	Δ



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	6.7	21.4	(11.6)	Δ
Jet Fuel	5.1	15.4	(11.6)	Δ
CAD/USD	(1.0)	(3.7)	0.2	▼

AEROSPACE				
Bombardier	6.3	8.4	(58.2)	Δ
Boeing	(0.3)	9.3	3.1	▼
EADS	2.6	47.8	24.8	Δ
Embraer	6.9	(7.8)	(12.8)	Δ
General Dynamics	3.2	14.2	(6.3)	Δ
Textron	7.8	15.1	(20.8)	Δ
United Technologies	(1.9)	21.7	2.3	▼

N.A. MAINLINE				
Air Canada	4.2	56.9	87.5	Δ
AMR	3.6	(0.3)	(18.5)	Δ
Delta	6.8	17.8	16.4	Δ
United	7.6	7.0	24.8	Δ

N.A. REGIONAL				
Alaska	5.2	4.7	0.3	Δ
Allegiant	0.4	42.7	1.5	Δ
Chorus Aviation	5.8	41.3	10.1	Δ
JetBlue	3.7	18.2	(3.4)	Δ
SkyWest	2.6	39.3	13.1	Δ
Southwest	2.5	11.1	(3.0)	Δ
WestJet	2.1	70.9	66.6	Δ

INTL. AIRLINES				
Lufthansa	(15.1)	(24.2)	(27.4)	▼
Air France/KLM	6.9	(9.1)	17.4	Δ
BA/Iberia	1.7	(23.2)	(30.5)	Δ
Cathay Pacific	0.0	(13.3)	10.6	Δ
Air China	8.8	13.9	3.9	Δ
China Eastern	7.8	5.0	(10.0)	Δ
China Southern	7.0	10.5	(9.9)	Δ
Singapore Airlines	3.7	0.4	(9.1)	Δ
Qantas	2.5	(2.1)	(14.5)	Δ

Source: Bloomberg

**RBC Capital Markets acted as financial advisor and lending bank to Onex Corporation in connection with the acquisition of WestJet Airlines Ltd., announced on May 13th, 2019.**



## Canadian Airlines Q2/19 preview

### Q2 Preview – Clear skies ahead

It was a busy quarter in terms of acquisition headlines, with a lot of significant transactions announced (Onex / WestJet and Air Canada / Transat). As we look ahead to the upcoming quarterly results, we see overall fundamentals remaining favorable, with evidence of declining capacity among the North American carriers. We also note Q2 is not usually a seasonally strong quarter for the airlines, but it can provide some early indications into demand during the all-important summer season. Further, our Fare Tracker is pointing to higher yields across all segments, which bodes well for RASM growth in the quarter. We discuss these trends in more detail below, and why we expect this to be another solid quarter for the Canadian airlines.

### Q2 Preview: Estimates

Our estimates have changed modestly ahead of the Q2 reporting season, mostly the result of the slight drop in the forward curve for oil prices, and a slight modification to costs related to rescheduling the grounded MAX 8 flights. Our price target on Air Canada is the only one we have changed. Details are in the estimates summary below:

Exhibit 1: Estimate Changes ahead of the quarter

	Q2 2019 EBITDA			2019E EBITDA			2020E EBITDA			Target Multiple		Price Target (CAD)		Rating	Implied Return
	Prior	RBC	Street	Prior	RBC	Street	Prior	RBC	Street	Old	New	RBC	New		
<b>Airlines</b>															
<b>Air Canada</b>	\$799	<b>\$820</b>	\$805	\$3,593	<b>\$3,697</b>	\$3,601	\$4,100	<b>\$4,245</b>	\$3,998	4.0x	<b>4.0x</b>	\$46	<b>\$48</b>	O	+15%
<b>WestJet</b>	\$115	<b>\$118</b>	\$142	\$839	<b>\$863</b>	\$864	\$931	<b>\$972</b>	\$1,009	5.2x	<b>5.0x</b>	\$31	<b>\$31</b>	SP	+1%
<b>Chorus Aviation</b>	\$87	<b>\$87</b>	\$86	\$353	<b>\$353</b>	\$345	\$411	<b>\$411</b>	\$404	6.0x	<b>6.0x</b>	\$9.5	<b>\$9.5</b>	O	+19%

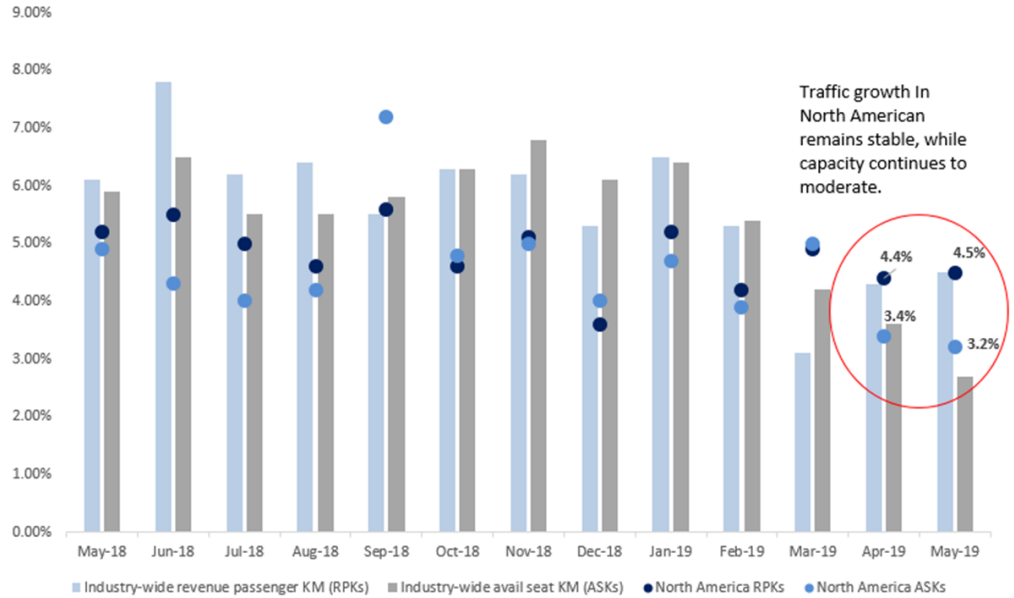
Source: Air Canada, WestJet, RBC Capital Markets estimates

### IATA Traffic Data points to robust demand in North America

With the proposed privatization by Onex, WestJet will no longer be providing the traffic and capacity numbers, which we had previously used as an indicator for underlying market fundamentals. We will instead use data by the industry trade group International Air Transport Association (IATA), which provides a global measure of traffic, capacity, and load factor, broken down by region. While this data does come with a bit of a time lag (~6 weeks), we can still gauge the trend ahead of the quarterly reporting season. We summarize some of this data in Exhibit 2.

According to the IATA data, North American demand remains robust, with a 4.5% increase in Revenue Passenger Km's (RPKs) in May Y/Y (and 4.4% in April), in-line with the average over the past year and well above the long-term average of 3.3% (according to IATA statistics). A key driver has been solid economic growth, which has somewhat offset the adverse impact of the ongoing trade tensions. The data for North America also show a steady decline in Average Seat Km's (ASMs) over the past two months as well, which points to moderating capacity, itself a positive indicator for yield levels.

Exhibit 2: Traffic (RPKs) and capacity (ASKs) as reported by IATA show continued demand strength and moderating capacity in North America



Source: IATA .org

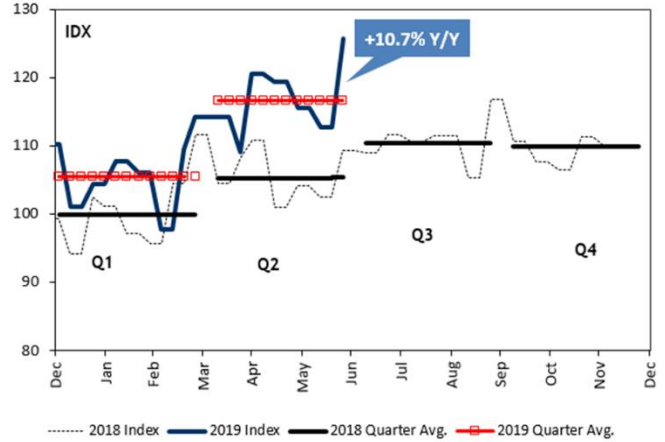
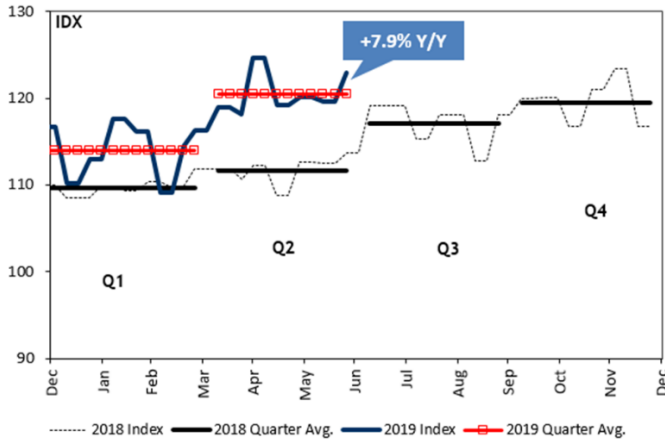
### Fare tracker points to strength in Q2 yields

The RBC Fare Survey is pointing toward another quarter of positive Y/Y fare price growth for Canadian airlines in Q2. For Air Canada, this is the ninth consecutive quarter that our Survey has registered positive growth for the company, with the RBC Fare Survey index up +7.9% Y/Y for Air Canada. As a proxy for yields in the quarter – we adjust down by 250bp for mix, implying a very solid yield increase of +5.4% Y/Y.

WestJet fares, as measured by our Fare Tracker, show a strong spike towards the end of the quarter. Fares ended up rising a very healthy 10.7% Y/Y in Q2, and after adjusting down by 50bp to account for mix, it implies a positive yield of 10.2% Y/Y.

Exhibit 3: Fares were volatile but ended the quarter higher

RBC Fare Tracker – Air Canada RBC Fare Tracker – WestJet

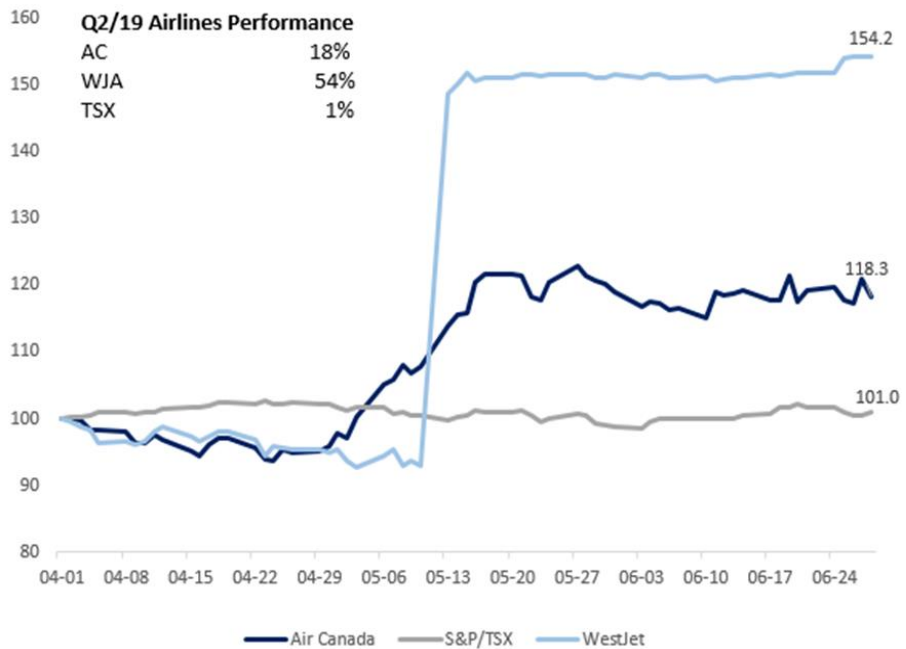


Source: Air Canada, WestJet, RBC Capital Markets estimates

WestJet outperforms following deal announcement

Both airlines began the quarter somewhat weak, as worries concerning the grounding of the 737 MAX increased. However, news that Onex had acquired shares of WJA at \$31 had a positive impact on valuation levels across the sector. Then the news that Air Canada was looking at, and then acquired Transat, further boosted valuation levels for AC specifically, as the market assessed the opportunities from the deal (but AC valuation at 3.6x 2020E EBITDA remains well below peers). Both airlines therefore outperformed the market in Q2.

Exhibit 4: WestJet and Air Canada outperform the TSX in Q2



Source: Factsset, RBC Capital Markets



**Air Canada (TSX: AC)**

**Outperform; \$48 Target (from \$46)**

**SUMMARY**

Market price:	\$41.76	52-Wk High:	\$42.49
Yield (12-mth):	0.0%	52-Wk Low:	\$20.63
Total est. return:	15%	Mkt Cap (MM):	\$11,484
Shares O/S (MM):	275.0	Net Debt (MM):	\$6,393
Float (MM):	\$11,484	EV (MM):	\$17,877

**STOCK SET-UP**

**Q2/19 Performance**

Absolute vs. S&P TSX	18%
Short Interest (Days to Cover)	1.8
Current	1.8

**Analyst Sentiment**

Outperform	88%
Sector Perform	13%
Underperform	0%

**CONFERENCE CALL DETAILS**

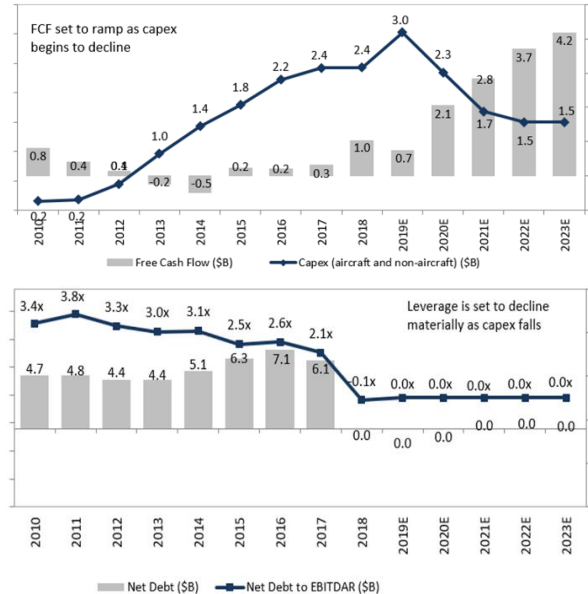
- Wednesday July 31<sup>st</sup>, at 8:30AM ET
- 1-800-478-9326

**Q2/19 set-up.** We are slightly adjusting our Q2 estimates, mostly due to the lower forward fuel curve. This has moved our 2019E EBITDA margin back to 19.1% (within the previous guidance range of 19-22% from Investor day). We do not expect management to provide additional guidance this quarter, given the 737 MAX remains grounded; however, we may hear more detail in terms of how management is doing in terms of mitigating the disruption. We may also hear commentary related to the integration of Transat, and how this could change the Vacation segment strategy.

**Slight change to estimates.** Following the above changes, our 2019 forward revenue estimates move up slightly to \$3,697MM (from \$3,593MM), and to \$4,245MM (from \$4,100MM) in 2020. As such, our price target moves up to \$48 (from \$46) and we maintain an Outperform rating.

**Area of focus.** Our focus will be on management's quantification of the impact of the MAX 8 grounding and how disclosure will be updated once regular operations resume. Further, this is also the first full quarter including Aeroplan, we will also look for additional color in terms of the full run-rate of benefits. Finally, we will monitor for progress toward FCF generation and capex trends as they are key to our thesis on AC.

**FCF and Leverage**



	Q2/19			2019E			2020E		
	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var
Traffic: RPMs (% chg)	0.0%	0.0%	0bp	1.9%	1.9%	0bp	4.0%	4.0%	0bp
Capacity: ASMs (% chg)	0.0%	0.0%	0bp	2.0%	2.0%	0bp	4.0%	4.0%	0bp
Load Factor (%pts)	83.1%	83.1%	0bp	83.2%	83.2%	0bp	83.2%	83.2%	0bp
Yield (% chg)	5.5%	5.5%	0bp	5.4%	5.4%	0bp	3.0%	3.0%	0bp
RASM (% chg)	5.7%	5.7%	0bp	4.7%	4.7%	0bp	3.0%	3.0%	0bp
Adj. CASM ex fuel+other (% chg)	5.3%	5.0%	-35bp	4.6%	4.5%	-8bp	1.3%	1.4%	8bp
Avg Jet Fuel Price: (\$/Ltr)	\$0.85	\$0.85	-0.9%	\$0.84	\$0.82	-1.9%	\$0.85	\$0.83	-2.9%
Revenue	4,602	4,602	0.0%	19,340	19,340	0.0%	20,616	20,616	0.0%
Expenses	3,803	3,782	-0.5%	15,747	15,643	-0.7%	16,516	16,371	-0.9%
<b>EBITDA</b>	<b>799</b>	<b>820</b>	<b>2.6%</b>	<b>3,593</b>	<b>3,697</b>	<b>2.9%</b>	<b>4,100</b>	<b>4,245</b>	<b>3.5%</b>
EBITDA Margin	17.4%	17.8%	2.6%	18.6%	19.1%	2.9%	19.9%	20.6%	3.5%
EPS ex-one time items (\$)	0.64	0.70		4.55	4.83		4.47	4.87	
Consensus EBITDA		813			3,641			4,100	

Source: Company reports, RBC CM estimates

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

Priced as of market close July 10, 2019



## Chorus Aviation (TSX : CHR)

## Outperform; \$9.50 Target (unchg)

### SUMMARY

Market price:	\$7.97	52-Wk High:	\$8.10
Yield (12-mth):	6.0%	52-Wk Low:	\$4.54
Total est. return:	25.2%	Mkt Cap (MM)	\$1,138
Shares O/S (MM)	142.8	Net Debt (MM)	\$1,409
Float (MM):	\$1,138	EV (MM):	\$2,547

### STOCK SET-UP

#### Q2/19 Performance

Absolute	6%
vs. S&P TSX	473bps

#### Short Interest (Days to Cover)

Current	4.5
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#### Analyst Sentiment

Outperform	100%
Sector Perform	-
Underperform	0%

### CONFERENCE CALL DETAILS

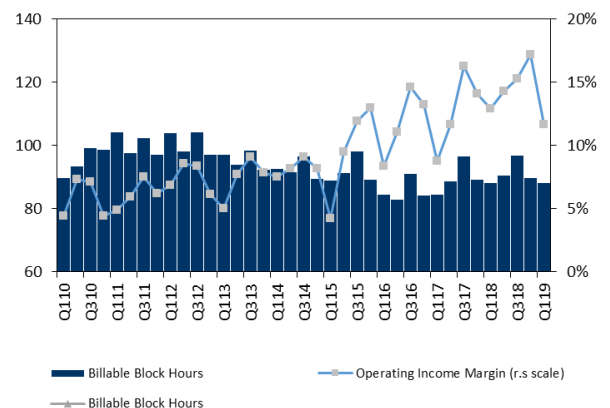
- Wednesday August 13th @ 9:30AM
- 1-888-231-8191

**Q2/19 set-up:** We have largely kept estimates unchanged ahead of Q2 results. While valuation levels have recovered somewhat since the extended deal with Air Canada, we still believe the market is not fully appreciating the value of the current leasing business. We note that we are in-line with consensus estimates for Q2, but slightly above for the full year 2019.

**Progress on leasing subsidiary.** As at the end of Q1, Chorus Aviation Capital (CAC) portfolio of leased regional aircraft (inclusive of 5 pending transactions) has reached 45 aircraft: 33 turboprops and 12 regional jets, valued at ~US \$960MM. We will be listening 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, especially with the extended deal, presents an attractive yield, while Chorus's progress into aircraft leasing provides a platform for growth. We believe the stock presents an attractive risk adjusted return.

### OPERATING METRICS



	Q2/19			2019E			2020E		
	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var
<b>Revenue breakdown</b>									
Controllable Revenue	201	201	0.0%	757	757	0.0%	833	833	0.0%
Leasing under CPA	33	33	0.0%	133	133	0.0%	133	133	0.0%
Margin compensation	19	19	0.0%	76	76	0.0%	76	76	0.0%
Incentives	0.425	0.4	0.0%	2	2	0.0%	2	2	0.0%
Pass through revenue	55	55	0.0%	218	218	0.0%	223	223	0.0%
Passenger revenue	308	308	0.0%	1,186	1,186	0.0%	1,267	1,267	0.0%
Regional Aircraft Leasing	330	330	0.0%	119	119	0.0%	140	140	0.0%
Other - Charter, contract flying, MRO, Other	30	30	0.0%	93	93	0.0%	94	94	0.0%
<b>Total Revenues</b>	<b>359</b>	<b>359</b>	<b>0.0%</b>	<b>1,397</b>	<b>1,397</b>	<b>0.0%</b>	<b>1,501</b>	<b>1,501</b>	<b>0.0%</b>
Total Expenses	308	308	0.0%	1,185	1,185	0.0%	1,270	1,270	0.0%
<b>EBITDA</b>	<b>87</b>	<b>87</b>	<b>0.0%</b>	<b>353</b>	<b>353</b>	<b>0.0%</b>	<b>411</b>	<b>411</b>	<b>0.0%</b>
<i>Consensus EBITDA</i>		86.4			344			404	

Source: Bloomberg, RBC Capital Markets estimates, Company reports

Priced as of market close July 10, 2019



## WestJet (TSX: WJA)

## Sector Perform; \$31 Target (unchg)

### SUMMARY

Market price:	\$30.75	52-Wk High:	\$31.00
Yield (12-mth):	1.8%	52-Wk Low:	\$16.71
Total est. return:	3%	Mkt Cap (MM):	\$3,604
Shares O/S (MM):	117.2	Net Debt (MM):	\$1,260
Float (MM):	\$3,536	EV (MM):	\$4,864

### CONFERENCE CALL DETAILS

- NA this quarter due to pending takeover

**Q2/19 set up.** We have adjusted Q2 estimates to account for a slightly lower forward fuel curve. We have otherwise kept all traffic, capacity and yield assumptions unchanged. As a result, our 2019 and 2020 estimates moved modestly higher, however we adjusted the valuation multiple lower to 5.0x (from 5.2x) to maintain the Price Target at \$31 (the agreed takeout price by Onex).

**Focus of the call.** We note there will be no call this quarter.

**Maintaining Sector Perform.** Following the run up in the stock following the Onex announcement, we believe the shares are fairly priced.

### STOCK SET-UP

#### Q2/19 Performance

Absolute	54%
vs. S&P TSX	5,219bps

#### Short Interest (Days to Cover)

Current	2.1
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#### Analyst Sentiment

Outperform	-
Sector Perform	82%
Underperform	18%

	RBC CM Q2/19E			RBC CM 2019E			RBC CM 2020E		
	Old	New	Var	Old	New	Var	Old	New	Var
Traffic: RPMs (% chg)	4.5%	4.5%	0bp	6.0%	6.0%	0bp	6.5%	6.5%	0bp
Capacity: ASMs (% chg)	4.5%	4.5%	0bp	6.0%	6.0%	0bp	7.0%	7.0%	0bp
Load Factor (%pts)	0.0%	0.0%	0bp	0.0%	0.0%	0bp	-0.4%	-0.4%	0bp
Yield (% chg)	0.5%	0.5%	0bp	1.0%	1.0%	0bp	2.0%	2.0%	0bp
RASM (% chg)	0.5%	0.5%	0bp	1.0%	1.0%	0bp	1.5%	1.5%	0bp
Adj. CASM ex fuel+other (% chg)	0.5%	0.5%	0bp	1.1%	1.1%	0bp	2.6%	2.6%	0bp
Avg Jet Fuel Price (\$/Ltr)	0.88	0.81	-7.8%	0.80	0.79	-1.9%	0.79	0.77	-3.1%
Revenue	1,142	1,142	0.0%	5,065	5,065	0.0%	5,503	5,503	0.0%
Expenses	1,024	1,024	0.0%	4,227	4,202	-0.6%	4,572	4,531	-0.9%
<b>EBITDA</b>	<b>115</b>	<b>118</b>	<b>2.6%</b>	<b>839</b>	<b>863</b>	<b>2.9%</b>	<b>931</b>	<b>972</b>	<b>4.4%</b>
EBITDA margin	10.3%	10.3%	0bp	16.6%	17.0%	49bp	16.9%	17.7%	75bp
<i>Consensus EBITDA</i>		142			867			1,010	

Source: Bloomberg, RBC Capital Markets estimates, Company reports

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## Valuation

### Air Canada

On a 4.0x EV/EBITDA applied to our 2020 estimates, we derive our price target of \$48. Our discount to the peer legacy group average is 1.1x due to higher financial leverage (which we expect to decline). Our base case reflects the following assumptions: (1) rising yields due to the recent focus on launching services aimed at the premium traveler, such as the Signature service; (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 rating.

Risks to our target include 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 \$9.50 price target on CHR shares is derived from an EV/EBITDA multiple approach. We are applying a 6.0x EBITDA multiple to our 2020E EBITDA of \$411MM, which is a premium to the regional jet peers owing to the anticipated growth and diversification into regional aircraft leasing. This generates our \$9.50 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 \$31 price target is based on an EV/EBITDA approach whereby we apply a 5.0x multiple to our 2020 estimate and is the basis of our Sector Perform rating. Our target multiple is reflection of the current take-out premium attributed by Onex.

Risks to our price target and estimates mostly involve 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	10-Jul-19 Price		EV/EBITDA			EV/Sales			EBITDA Margin			Net Debt to EBITDA	EV (MM)	
			2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E			
<b>Discount Airlines</b>														
WestJet	WJA-CA	C\$	\$30.75	6.6x	5.7x	5.1x	1.0x	0.9x	0.9x	15%	17%	17%	1.5x	4,766
Southwest	LUV-US	US\$	\$51.86	6.6x	6.5x	5.9x	1.3x	1.3x	1.2x	20%	19%	20%	0.2x	28,986
JetBlue	JBLU-US	US\$	\$18.94	5.9x	5.3x	4.7x	0.9x	0.9x	0.8x	16%	17%	18%	1.1x	7,271
<b>Discount Average</b>				<b>6.4x</b>	<b>5.8x</b>	<b>5.2x</b>	<b>1.1x</b>	<b>1.0x</b>	<b>1.0x</b>	<b>17%</b>	<b>18%</b>	<b>18%</b>	<b>0.7x</b>	
<b>Mainline Airlines</b>														
Air Canada	AC-CA	C\$	\$41.76	4.6x	4.2x	3.6x	0.8x	0.8x	0.7x	18%	19%	20%	1.1x	14,940
Delta Air Lines	DAL-US	US\$	\$59.47	7.1x	6.0x	5.9x	1.2x	1.2x	1.1x	17%	20%	19%	1.7x	54,476
United Continental	UAL-US	US\$	\$89.51	6.6x	6.0x	5.7x	1.0x	0.9x	0.9x	15%	15%	15%	2.4x	39,574
American Airlines	AAL-US	US\$	\$32.94	8.2x	7.6x	7.3x	1.0x	0.9x	0.9x	12%	12%	12%	5.1x	43,592
<b>Mainline Average</b>				<b>6.6x</b>	<b>5.9x</b>	<b>5.6x</b>	<b>1.0x</b>	<b>0.9x</b>	<b>0.9x</b>	<b>15%</b>	<b>16%</b>	<b>17%</b>	<b>3.1x</b>	
<b>Regional Airlines</b>														
Chorus Aviation	CHR-CA	C\$	\$7.97	6.8x	5.9x	5.2x	1.9x	1.7x	1.6x	28%	29%	30%	2.9x	2,540
SkyWest Inc.	SKYW-US	US\$	\$61.29	8.4x	8.4x	8.4x	1.9x	2.1x	2.0x	22%	24%	24%	4.1x	6,042
<b>Regional Average</b>				<b>7.6x</b>	<b>7.2x</b>	<b>6.8x</b>	<b>1.9x</b>	<b>1.9x</b>	<b>1.8x</b>	<b>25%</b>	<b>27%</b>	<b>27%</b>	<b>3.5x</b>	
<b>Airline Average</b>				<b>6.8x</b>	<b>6.2x</b>	<b>5.8x</b>	<b>1.2x</b>	<b>1.2x</b>	<b>1.1x</b>	<b>18%</b>	<b>19%</b>	<b>19%</b>	<b>2.2x</b>	

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at market close on July 10, 2019

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

FY Dec 31	2017A	Q1/18	Q2/18	Q3/18	Q4/18	2018	Q1/19	Q2/19E	Q3/19E	Q4/19E	2019E	Q1/20E	Q2/20E	Q3/20E	Q4/20E	2020E
Traffic / RPM (MMs)	85,137	20,440	22,654	28,465	20,793	92,352	21,293	22,654	28,750	21,417	94,113	22,145	23,560	29,900	22,273	97,878
% change	11.3%	11.4%	8.2%	7.5%	7.2%	8.5%	4.2%	0.0%	1.0%	3.0%	1.9%	4.0%	4.0%	4.0%	4.0%	4.0%
Capacity / ASM (MMs)	103,492	24,862	27,269	33,137	25,594	110,862	26,016	27,269	33,468	26,362	113,115	27,057	28,360	34,807	27,416	117,640
% change	11.6%	8.6%	7.5%	6.7%	5.8%	7.1%	4.6%	0.0%	1.0%	3.0%	2.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Load Factor (%)	82.3%	82.2%	83.1%	85.9%	81.2%	83.3%	81.8%	83.1%	85.9%	81.2%	83.2%	81.8%	83.1%	85.9%	81.2%	83.2%
change (% pts)	-0.2%	2.1%	0.5%	0.6%	1.1%	1.0%	-0.4%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (\$)	0.170	0.171	0.173	0.177	0.177	0.175	0.179	0.183	0.186	0.187	0.184	0.185	0.188	0.192	0.193	0.189
% change	0.8%	0.4%	2.0%	3.4%	3.8%	2.4%	5.0%	5.5%	5.5%	5.5%	5.4%	3.0%	3.0%	3.0%	3.0%	3.0%
RASM (Rev per unit of capacity, cents)	14.1	14.0	14.4	15.1	14.8	14.6	14.7	15.2	16.0	15.2	15.3	15.1	15.7	16.5	15.7	15.8
CASM (Costs per unit of capacity, cents)	14.3	16.0	14.8	13.6	15.9	14.9	16.6	15.6	14.3	16.1	15.5	17.1	15.6	14.4	16.0	15.7
Fuel Cost/ASM (cents)	3.2	3.8	4.0	4.1	4.3	4.0	3.8	4.2	4.2	4.2	4.1	4.2	4.1	4.1	4.1	4.1
CASM (excl. fuel) (cents)	11.1	12.3	10.8	9.5	11.6	10.9	12.8	11.3	10.1	11.8	11.4	12.9	11.5	10.3	11.9	11.6
<b>Total Revenues</b>	<b>16,252</b>	<b>4,071</b>	<b>4,333</b>	<b>5,415</b>	<b>4,246</b>	<b>18,065</b>	<b>4,453</b>	<b>4,602</b>	<b>5,790</b>	<b>4,495</b>	<b>19,340</b>	<b>4,739</b>	<b>4,906</b>	<b>6,180</b>	<b>4,790</b>	<b>20,616</b>
% change	10.7%	11.8%	10.8%	11.0%	11.2%	11.2%	9.4%	6.2%	6.9%	5.9%	7.1%	6.4%	6.6%	6.7%	6.6%	6.6%
Wages, salaries and benefits	2671	700	711	743	719	2873	799	805	817	814	3235	839	846	859	855	3399
% Sales	16.4%	17.2%	16.4%	13.7%	16.9%	15.9%	17.9%	17.5%	14.1%	18.1%	16.7%	17.7%	17.2%	13.9%	17.9%	16.5%
Aircraft Fuel - total	3339	939	1079	1350	1089	4457	997	1152	1410	1120	4678	1142	1169	1413	1122	4846
% Sales	20.5%	23.1%	24.9%	24.9%	25.6%	24.7%	22.4%	25.0%	24.3%	24.9%	24.2%	24.1%	23.8%	22.9%	23.4%	23.5%
Sales and distribution costs	770	189	199	237	182	807	213	206	261	206	885	222	207	271	214	914
% Sales	4.7%	4.6%	4.6%	4.4%	4.3%	4.5%	4.8%	4.5%	4.5%	4.6%	4.6%	4.7%	4.2%	4.4%	4.5%	4.4%
Food, beverages, supplies	383	96	108	125	104	433	103	108	126	107	444	107	112	131	111	462
% Sales	2.4%	2.4%	2.5%	2.3%	2.4%	2.4%	2.3%	2.3%	2.2%	2.4%	2.3%	2.3%	2.3%	2.1%	2.3%	2.2%
Aircraft maintenance	938	206	214	238	245	903	245	214	238	286	983	257	225	250	300	1032
% Sales	5.8%	5.1%	4.9%	4.4%	5.8%	5.0%	5.5%	4.6%	4.1%	6.4%	5.1%	5.4%	4.6%	4.0%	6.3%	5.0%
Airport and navigation fees	905	221	237	281	225	964	228	235	281	229	973	237	244	292	239	1012
% Sales	5.6%	5.4%	5.5%	5.2%	5.3%	5.3%	5.1%	5.1%	4.9%	5.1%	5.0%	5.0%	5.0%	4.7%	5.0%	4.9%
Communications and information technology	254	79	67	79	69	294	101	67	80	71	319	105	70	83	74	332
% Sales	1.6%	1.9%	1.5%	1.5%	1.6%	1.6%	2.3%	1.5%	1.4%	1.6%	1.6%	2.2%	1.4%	1.3%	1.5%	1.6%
Other	3526	861	865	925	868	3519	890	879	926	800	3496	947	937	989	853	3726
% Sales	21.7%	21.1%	20.0%	17.1%	20.4%	19.5%	20.0%	19.1%	16.0%	17.8%	18.1%	20.0%	19.1%	16.0%	17.8%	18.1%
Regional airline expense (ex fuel and DAR)	2137	492	527	521	491	2031	478	497	521	449	1946	509	530	556	479	2074
% Sales	13.1%	12.1%	12.2%	9.6%	11.6%	11.2%	10.7%	10.8%	9.0%	10.0%	10.1%	10.7%	10.8%	9.0%	10.0%	10.1%
<b>Total Operating Costs</b>	<b>12,786</b>	<b>3,291</b>	<b>3,480</b>	<b>3,978</b>	<b>3,501</b>	<b>14,250</b>	<b>3,576</b>	<b>3,665</b>	<b>4,140</b>	<b>3,633</b>	<b>15,014</b>	<b>3,857</b>	<b>3,809</b>	<b>4,289</b>	<b>3,768</b>	<b>15,722</b>
<b>EBITDA</b>	<b>2,928</b>	<b>504</b>	<b>739</b>	<b>1,351</b>	<b>619</b>	<b>3,213</b>	<b>583</b>	<b>820</b>	<b>1,562</b>	<b>732</b>	<b>3,697</b>	<b>580</b>	<b>976</b>	<b>1,800</b>	<b>889</b>	<b>4,245</b>
% of sales	18.0%	12.4%	17.1%	24.9%	14.6%	17.8%	13.1%	17.8%	27.0%	16.3%	19.1%	12.2%	19.9%	29.1%	18.6%	20.6%
Depreciation, amortization and impairment (Mainline + regional)	984	418	431	428	440	1,717	456	460	550	476	1,942	476	493	621	481	2,070
Aircraft rent (Mainline + regional)	543	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>EBIT (Excluding Special Charges)</b>	<b>1,371</b>	<b>86</b>	<b>308</b>	<b>923</b>	<b>179</b>	<b>1,496</b>	<b>127</b>	<b>360</b>	<b>1,012</b>	<b>256</b>	<b>1,755</b>	<b>104</b>	<b>484</b>	<b>1,179</b>	<b>408</b>	<b>2,175</b>
% of sales	8.4%	2.1%	7.1%	17.0%	4.2%	8.3%	2.9%	7.8%	17.5%	5.7%	9.1%	2.2%	9.9%	19.1%	8.5%	10.5%
<b>Net Income</b>	<b>1,127</b>	<b>(85)</b>	<b>89</b>	<b>618</b>	<b>(75)</b>	<b>547</b>	<b>345</b>	<b>192</b>	<b>665</b>	<b>125</b>	<b>1,327</b>	<b>10</b>	<b>287</b>	<b>797</b>	<b>245</b>	<b>1,340</b>
<b>EPS (F.D) (\$) (Exc. Special charges)</b>	<b>\$ 4.05</b>	<b>\$ (0.31)</b>	<b>\$ 0.32</b>	<b>\$ 2.24</b>	<b>\$ (0.27)</b>	<b>\$ 1.99</b>	<b>\$ 1.25</b>	<b>\$ 0.70</b>	<b>\$ 2.42</b>	<b>\$ 0.45</b>	<b>\$ 4.83</b>	<b>\$ 0.04</b>	<b>\$ 1.04</b>	<b>\$ 2.90</b>	<b>\$ 0.89</b>	<b>\$ 4.87</b>

Source: RBC CM estimates, Company reports

Chorus Aviation (TSX: CHR)

FY Dec 31	2017A	Q1/18	Q2/18	Q3/18	Q4/18	2018	Q1/19	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	89,980	365,651	88,153	90,639	96,879	89,980	365,651	88,153	90,639	96,879	89,980	365,651
% change	4.8%	4.3%	2.1%	0.2%	0.7%	1.8%	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>																
Revenue	1,352	348	378	367	359	1,451	344	359	348	346	1,397	385	381	373	362	1,501
% change	5.9%	8.7%	13.7%	6.7%	0.7%	7.3%	-1.1%	-5.0%	-5.1%	-3.7%	-3.8%	12.0%	6.1%	7.2%	4.8%	7.5%
Salaries, wages and benefits	445	117	109	113	103	443	128	108	116	109	462	141	111	122	115	488
% Sales	33%	34%	29%	31%	29%	31%	37%	30%	33%	32%	33%	37%	29%	33%	32%	33%
Aircraft fuel	0	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%
Depreciation and amortization	103	30	30	30	31	121	32	36	35	38	141	44	45	47	45	180
% Sales	8%	9%	8%	8%	9%	8%	9%	10%	10%	11%	10%	11%	12%	12%	12%	12%
Food and beverage	0	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	56	241	59	78	53	54	245	62	86	56	55	259
% Sales	14%	15%	20%	15%	16%	17%	17%	22%	15%	16%	18%	16%	22%	15%	15%	17%
Airport and navigation fees	167	40	43	45	43	170	40	44	46	45	175	41	44	47	47	180
% Sales	12%	11%	11%	12%	12%	12%	12%	12%	13%	13%	13%	11%	12%	13%	13%	12%
Aircraft rent	99	24	24	25	25	98	0	0	0	0	0	0	0	0	0	0
% Sales	7%	7%	6%	7%	7%	7%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Terminal handling	28	6	5	5	5	22	6	5	5	5	22	6	5	5	5	22
% Sales	2%	2%	1%	1%	1%	1%	2%	1%	1%	2%	2%	2%	1%	1%	1%	1%
Other	144	32	38	37	33	140	38	37	34	32	141	37	38	34	33	142
% Sales	11%	9%	10%	10%	9%	10%	11%	10%	10%	9%	10%	10%	10%	9%	9%	9%
Total Operating Expenses	1,179	303	324	311	297	1,235	304	308	289	284	1,185	331	329	311	300	1,270
Operating Income	173	45	54	56	62	217	40	52	59	62	212	54	53	62	62	231
EBITDA	276	75	84	86	93	337	72	87	94	99	353	98	97	108	107	411
% of sales	62.1%	63.5%	76.9%	76.0%	89.7%	76.1%	56.6%	80.4%	80.5%	91.0%	76.3%	69.8%	88.1%	88.8%	92.9%	84.1%
Net Income	181	-9	10	37	-5	33	30	15	20	20	85	21	16	21	20	78
EPS (F.D) (\$) (Excluding Special charges)	\$1.33	\$0.04	\$0.12	\$0.31	\$0.01	\$0.47	\$0.22	\$0.10	\$0.13	\$0.13	\$0.58	\$0.14	\$0.10	\$0.14	\$0.13	\$0.51
CFPS (F.D) (\$) (Excluding Special charges)	\$1.89	\$0.43	\$0.52	\$0.50	\$0.55	\$2.01	\$0.37	\$0.33	\$0.36	\$0.38	\$1.44	\$0.43	\$0.40	\$0.45	\$0.42	\$1.69

Source: Company reports, RBC Capital Markets estimates

WESTJET (TSX: WJA)

FY Dec. 31 (\$MM's)	2017	Q1/18	Q2/18	Q3/18	Q4/18	2018	Q1/19	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	7,168	6,945	8,005	7,112	29,230	7,634	7,396	8,525	7,574	31,130
% change	8.1%	6.5%	6.1%	8.6%	4.5%	6.5%	5.3%	4.5%	6.5%	7.5%	6.0%	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	8,456	8,278	9,457	8,717	34,909	9,048	8,858	10,119	9,327	37,352
% change	5.8%	4.3%	4.7%	10.0%	5.9%	6.3%	5.3%	4.5%	6.5%	7.5%	6.0%	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%	84.8%	83.9%	84.6%	81.6%	83.7%	84.4%	83.5%	84.2%	81.2%	83.3%
change (%pts)	1.8%	1.8%	1.1%	-1.1%	-1.1%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	-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	17.55	16.45	16.95	18.40	17.33	17.90	16.77	17.29	18.77	17.68
% change	1.1%	0.3%	-3.2%	-4.4%	2.2%	-1.4%	0.3%	0.5%	1.0%	2.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
RASM (Revenue per unit of capacity, cents)	14.5	14.8	13.7	14.2	14.7	14.4	14.9	13.8	14.3	15.0	14.5	15.1	14.0	14.6	15.2	14.7
CASM (Costs per unit of capacity, cents)	13.1	14.2	14.1	13.3	14.1	13.9	14.2	14.1	13.2	14.0	13.9	14.4	14.1	13.4	14.0	14.0
Fuel Cost/ASM (cents)	3.1	3.5	3.8	3.9	3.8	3.7	3.5	3.7	3.5	3.6	3.6	3.6	3.5	3.4	3.4	3.5
Maintenance Cost/ASM (cents)	0.7	0.7	0.7	0.6	0.9	0.7	0.6	0.7	0.6	0.9	0.7	0.8	0.7	0.7	0.6	0.7
CASM (excl. fuel) (cents)	10.1	10.6	10.3	9.5	10.3	10.2	10.7	10.4	9.7	10.4	10.3	10.8	10.6	10.0	10.5	10.5
% change	1%	2%	3%	-2%	0%	1%	0%	1%	3%	1%	1%	2%	2%	4%	1%	2%
Avg Jet Fuel Price (\$/Ltr)	0.63	0.72	0.81	0.85	0.83	0.80	0.77	0.81	0.79	0.79	0.79	0.78	0.77	0.77	0.76	0.77
<b>Total Revenues</b>	<b>4,506.7</b>	<b>1,191.7</b>	<b>1,087.6</b>	<b>1,260.9</b>	<b>1,193.3</b>	<b>4,733.5</b>	<b>1,257.7</b>	<b>1,142.2</b>	<b>1,356.6</b>	<b>1,308.7</b>	<b>5,065.1</b>	<b>1,366.5</b>	<b>1,240.7</b>	<b>1,473.7</b>	<b>1,421.6</b>	<b>5,502.6</b>
% change	9.3%	6.9%	2.8%	3.8%	6.6%	5.0%	5.5%	5.0%	7.6%	9.7%	7.0%	8.7%	8.6%	8.6%	8.6%	8.6%
Airport Operations	609.3	172.9	161.8	139.8	168.1	642.6	175.2	162.6	143.2	180.7	661.7	194.9	174.0	153.2	193.3	715.4
% change	5%	2%	5%	10%	6%	5%	1%	1%	2%	7%	3%	11%	7%	7%	7%	8%
Aircraft Fuel	950.0	281.2	302.3	343.3	304.9	1231.6	296.9	305.3	332.7	310.0	1244.9	322.5	310.9	344.2	320.5	1298.1
% change	24%	19%	34%	44%	21%	30%	6%	1%	-3%	2%	1%	9%	2%	3%	3%	4%
Maintenance	242.6	63.4	59.4	72.3	61.7	256.7	64.3	59.7	74.0	66.3	264.3	71.5	63.8	79.2	70.9	285.5
% change	5%	2%	5%	10%	6%	6%	1%	1%	2%	8%	3%	11%	7%	7%	7%	8%
Sales & Distribution	463.9	117.1	114.8	139.8	119.3	491.0	124.4	115.4	143.2	128.2	511.2	132.0	123.5	153.2	137.2	545.9
% change	5%	2%	5%	10%	6%	6%	6%	1%	2%	8%	4%	6%	7%	7%	7%	7%
Marketing, General & Administrative	254.9	65.8	62.6	76.3	65.1	269.8	67.8	62.9	78.1	69.9	278.8	74.2	67.4	83.6	74.8	299.9
% change	5%	2%	5%	10%	6%	6%	3%	1%	2%	8%	3%	9%	7%	7%	7%	8%
Flight Operations	595.1	154.0	146.1	177.9	151.8	629.8	158.3	146.9	182.3	163.2	650.6	173.5	157.2	195.0	174.6	700.3
% change	5%	2%	5%	10%	6%	6%	3%	1%	2%	8%	3%	10%	7%	7%	7%	8%
In-Flight	243.2	63.6	59.5	72.4	61.8	257.3	64.4	59.8	74.2	66.4	264.9	71.7	64.0	79.4	71.1	286.1
% change	5%	2%	5%	10%	6%	6%	1%	1%	2%	8%	3%	11%	7%	7%	7%	8%
Employee Profit Sharing	46.8	6.4	-3.3	8.3	4.5	15.9	5.2	4.8	5.7	5.5	21.1	0.0	0.0	0.0	0.0	0.0
% change	-21%	-9%	-142%	-70%	3%	-66%	-18%	-246%	-32%	20%	33%	-100%	-100%	-100%	-100%	-100%
<b>EBITDA (after profit sharing)</b>	<b>1,001.7</b>	<b>200.9</b>	<b>117.9</b>	<b>215.4</b>	<b>190.5</b>	<b>724.8</b>	<b>217.7</b>	<b>118.0</b>	<b>275.5</b>	<b>252.0</b>	<b>863.2</b>	<b>233.8</b>	<b>145.9</b>	<b>296.8</b>	<b>295.1</b>	<b>971.7</b>
% of sales	22.2%	16.9%	10.8%	17.1%	16.0%	15.3%	17.3%	10.3%	20.3%	19.3%	17.0%	17.1%	11.8%	20.1%	20.8%	17.7%
<b>Earnings from operations (EBIT)</b>	<b>433</b>	<b>56</b>	<b>(28)</b>	<b>78</b>	<b>49</b>	<b>155</b>	<b>60</b>	<b>(25)</b>	<b>106</b>	<b>88</b>	<b>229</b>	<b>63</b>	<b>(9)</b>	<b>113</b>	<b>117</b>	<b>284</b>
% of sales	9.6%	4.7%	-2.5%	6.2%	4.1%	3.3%	4.8%	-2.2%	7.8%	6.8%	4.5%	4.6%	-0.7%	7.6%	8.3%	5.2%
<b>EPS F.D.</b>	<b>2.37</b>	<b>0.32</b>	<b>(0.18)</b>	<b>0.40</b>	<b>0.26</b>	<b>0.80</b>	<b>0.40</b>	<b>(0.20)</b>	<b>0.59</b>	<b>0.46</b>	<b>1.24</b>	<b>0.32</b>	<b>(0.10)</b>	<b>0.64</b>	<b>0.64</b>	<b>1.50</b>

Source: Company Reports; RBC Capital Markets Estimates

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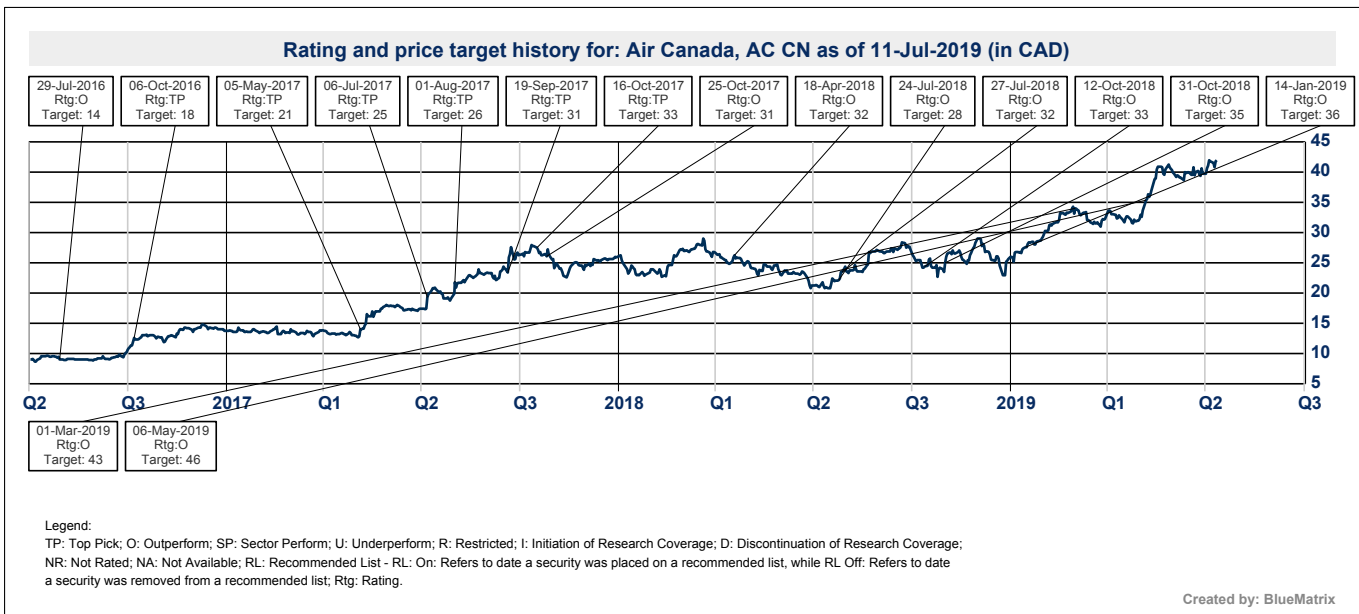
**Risk Rating**

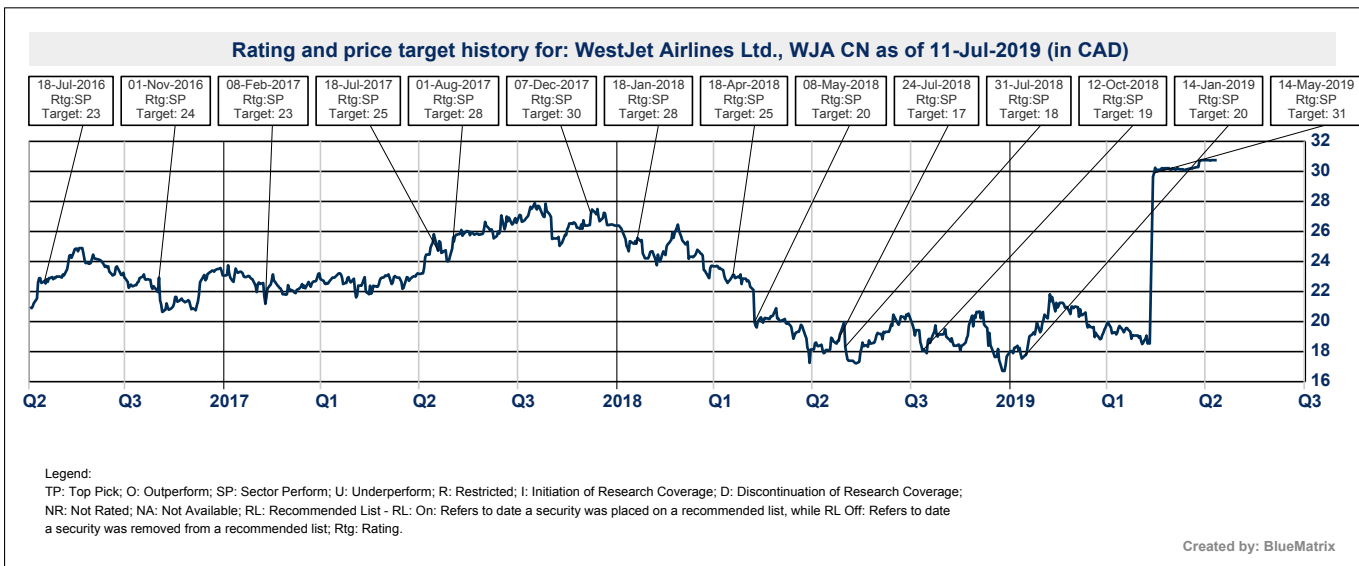
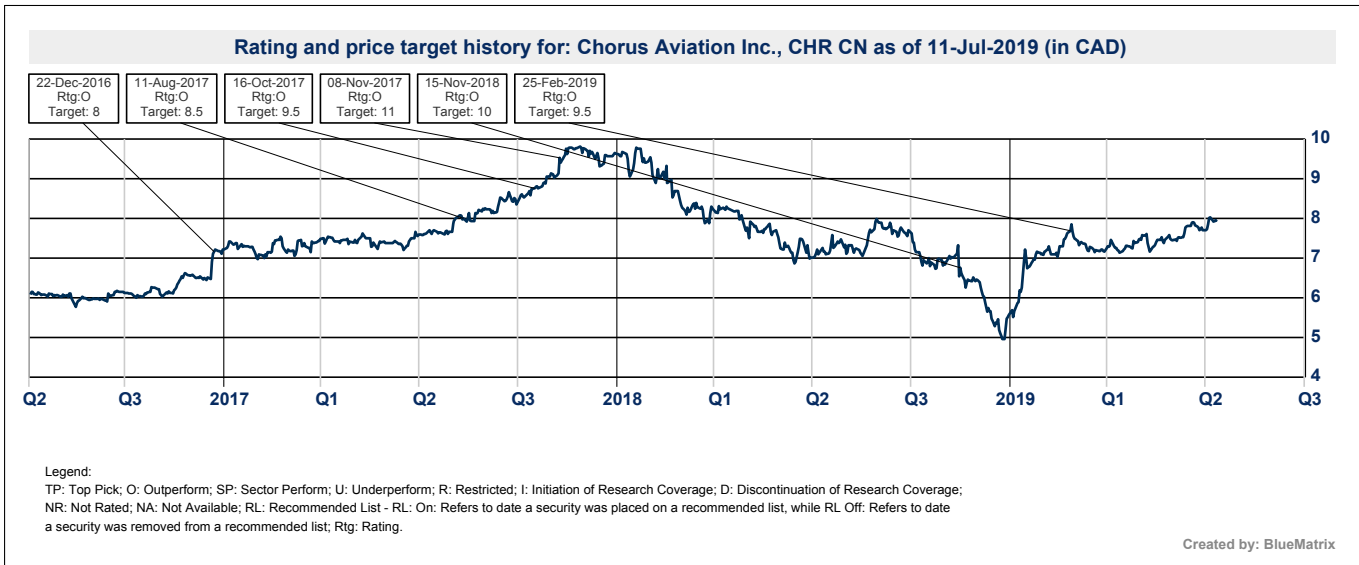
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### Air Canada

#### Valuation

Our \$48.00 target price is based on a 4.0x EV/EBITDA multiple applied to our 2020 estimates, which is a 1.1x discount to the group average multiple due to higher financial leverage (which we expect to decline). Our base case reflects the following assumptions:



Our base case reflects the following assumptions: (1) stable yields with the changing business mix related to AC's strategic transformation partially offset by premium segment focus; (2) fleet expansion and strong demand to drive traffic growth; and (3) jet fuel prices to remain relatively range-bound at current levels. The implied return to our price target supports our Outperform rating.

#### **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 \$9.50 price target on CHR shares is derived from an EV/EBITDA multiple approach. We are applying a 6.0x EBITDA multiple to our 2020E EBITDA of \$411MM, which is a premium to the regional jet peers owing to the anticipated growth and diversification into regional aircraft leasing. This generates our \$9.50 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 \$31 price target is based on an EV/EBITDA approach whereby we apply a 5.0x multiple (which also reflects the Onex proposed buyout) 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. Our target multiple is also in-line with the recent acquisition price announced by Onex Corp.

#### **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. Risks also relate to the inability of Onex to complete the deal for regulatory, financing or other reasons.

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