



October 16, 2017

RBC Flight Deck

Canadian Airlines Q3 preview: Looking for record earnings

Strong set-up for Q3. We believe the Canadian airlines are poised to post record earnings this quarter on the back of what is by all indications a strong summer season. While share prices have appreciated considerably (AC is up 51% for the quarter and WJA up 15%), some of this may be baked in; however, the operating leverage for AC and WJA does provide room to surprise on the upside. While the move in share price may be driven by earnings, we remain of the view that there is room for a positive move in the multiple based on the improving fundamentals, thus yielding further upside.

Updating estimates; rolling forward to 2019E. We have a full recap in this report with all of our estimate changes and valuation updates. However, we highlight below our key Q3/17 expectations and note that all price target changes were caused by rolling forward the basis of our target year.

- **AC: Maintaining Top Pick, Speculative Risk; raising price target to \$33 (from \$31).** We had already raised our estimates following Air Canada's investor day on September 19. As such, we leave our estimates unchanged, with EBITDAR of \$1,479M (vs. consensus of \$1,385M). While Air Canada saw strong share price increases following its investor day, we see a strong quarter of demand as driving further value in the near term.
- **WJA: Maintaining Sector Perform and \$28 price target.** We are keeping our estimates relatively steady. Despite strong traffic growth, our Fare Tracker picked up weak pricing, so we adjusted our yield estimate to 0% Y/Y growth (down from +2.5%). For Q3, we forecast EBITDAR of \$351M, which is only slightly above consensus of \$344M.
- **CHR: Maintaining Outperform and raising our price target to \$9.50 (from \$8.50).** Given the stable nature of Chorus's CPA with Air Canada, we do not see much in the way of EBITDAR variability. We are looking for EBITDAR of \$100M, in line with consensus of \$101M. We expect an update on the expansion of Chorus's regional aircraft leasing subsidiary to be the focus.

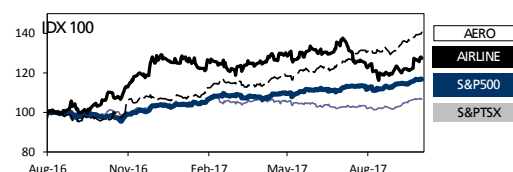
Revisions details are on pages 4–6; updated models are on pages 14–16.

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INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTSX	(0.4)	(1.1)	2.5	▼
S&P 500	0.3	10.1	12.9	Δ
AMEX Airline	(9.1)	(0.9)	24.3	▼
AMEX Aerospace	4.8	24.5	31.9	Δ



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	1.8	(16.5)	(4.2)	Δ
Jet Fuel	5.2	(3.1)	16.4	Δ
CAD/USD	0.6	(5.3)	(1.5)	Δ

AEROSPACE				
Bombardier	11.0	21.2	33.5	Δ
Boeing	13.7	52.3	78.2	Δ
EADS	(3.8)	14.1	37.8	▼
Embraer	8.5	9.1	11.6	Δ
General Dynamics	(0.4)	16.0	32.2	▼
Textron	(1.4)	0.8	24.8	▼
United Technologies	(5.1)	6.9	7.6	▼

N.A. MAINLINE				
Air Canada	11.2	67.6	155.7	Δ
AMR	(10.0)	4.5	39.8	▼
Delta	(9.2)	1.8	37.7	▼
United	(16.5)	(8.5)	41.6	▼

N.A. REGIONAL				
Alaska	(8.1)	(4.1)	30.1	▼
Allegiant	(12.3)	(25.4)	(1.9)	▼
Chorus Aviation	2.7	9.7	31.9	Δ
JetBlue	(7.5)	(3.3)	28.3	▼
SkyWest	1.0	1.2	29.0	Δ
Southwest	(11.6)	9.8	49.8	▼
WestJet	0.9	13.0	7.4	Δ

INTL AIRLINES				
Lufthansa	(5.9)	60.2	78.2	▼
Air France/KLM	(7.5)	138.9	135.5	▼
BA/Iberia	(2.2)	39.0	50.4	▼
Cathay Pacific	(9.3)	(32.9)	(38.0)	▼
Air China	(5.3)	43.0	12.0	▼
China Eastern	(9.5)	18.0	(7.1)	▼
China Southern	(5.2)	45.2	6.6	▼
Singapore Airlines	4.5	9.0	(3.7)	Δ
Qantas	5.7	72.7	72.2	Δ

Source: Bloomberg

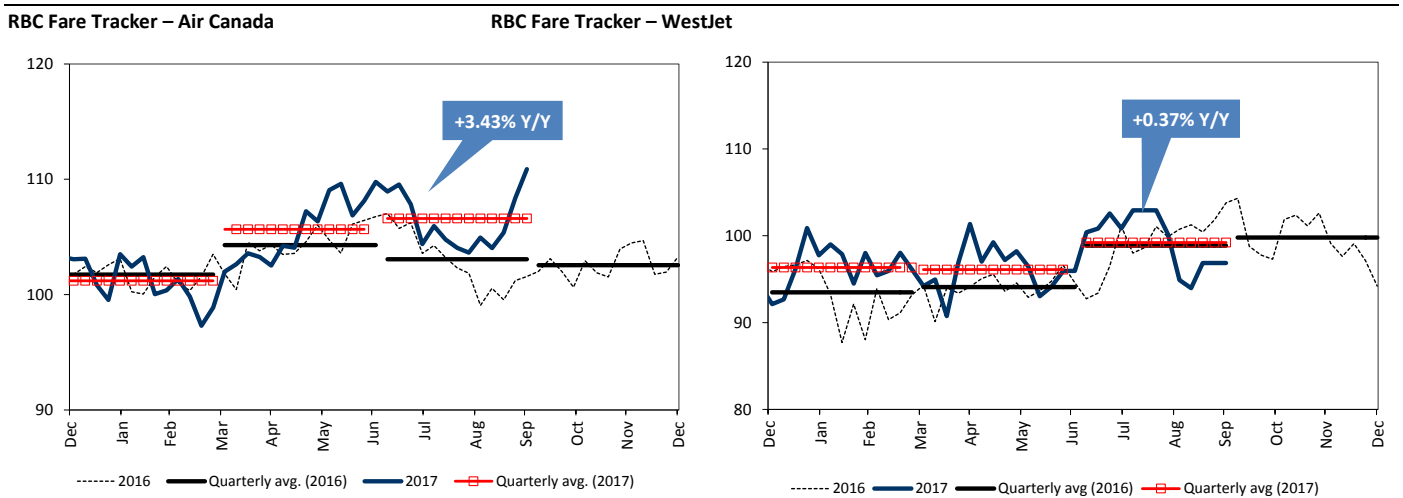


Canadian Airlines Q3/17 preview

Fare sale activity remains steady in the third quarter

As tracked by the RBC Fare Survey, the Canadian airlines were able keep fares firm while managing strong traffic growth, which has resulted in positive Y/Y fare growth for the third quarter for both Air Canada and WestJet. For Air Canada, the RBC Fare Survey picked up positive fare growth of +3.4% Y/Y. After adjusting down by 250bp for mix, it implies a yield increase of +0.9% Y/Y (above our -1.4% estimate). For the quarter, the RBC Fare Survey picked up marginally positive fare growth of +0.4% Y/Y for WestJet. After adjusting down by 50bp to account for mix, it implies a negative yield of -0.1% Y/Y (below our +2.5% estimate).

Exhibit 1: Fares were higher Y/Y in Q3 on top of strong traffic levels



Source: Air Canada, WestJet, RBC Capital Markets estimates

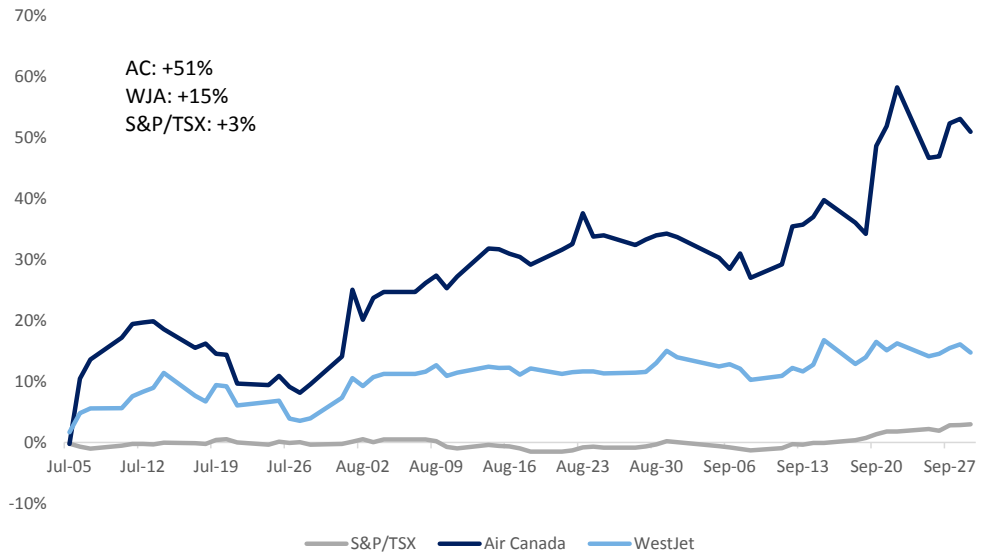
Strong traffic volumes during summer season

Q3/17 results are poised to post record numbers. Preliminary data suggests that Canadian airlines managed strong traffic growth well. Our Fare Tracker showed that fares averaged higher levels Y/Y in Q3, and WestJet’s traffic statistics showed that capacity rose at a slower pace than traffic, leading to strong load factors numbers. Adding to the positive backdrop, the USD fell 4% relative to the Canadian dollar, which has three main benefits: 1) boosts demand for Canadian leisure travelers; 2) helps offset the slight rise in WTI prices; and 3) lowers US net cash flow exposure, which in 2016 stood at \$2.1B for Air Canada.

Indications of strong airline fundamentals yield strong returns

Throughout the quarter, we have seen many indications of a strong Q3, which we believe explain WJA and AC’s share price run. Air Canada in particular has garnered a lot of attention by blowing past Q2 expectations and providing an update of its strategy and setting targets through 2020 at its investor day, an event that led many sell-side analysts (including us) to raise estimates.

Exhibit 2: Airlines outperform TSX during Q3



Source: Factset, RBC Capital Markets

Air Canada and WestJet make partnerships to complement international offerings

Air Canada moves to offer more personalized customer experience. The company signed for the full Amadeus Altéa Suite passenger service system and announced a multi-year extension to its distribution agreement with airline IT provider Amadeus. The service will contribute to Air Canada’s reservation, inventory, and departure control solutions. Once operational, the system will be customizable to individual customer preferences and attributes. Specific to Air Canada’s international expansion, the system will allow for closer integrations with the Star Alliance, wherein more than two-thirds of the members are Altéa carriers.

WestJet looks to expand ancillary revenue through hotel bookings. WestJet partnered with Switchfly, a company that offers a white-label booking engine. WJA will be able to brand Switchfly’s search engine as a WestJet product and offer the 410,000 hotel properties in the search engine directly to consumers. Switchfly’s platform will also offer added benefits to existing members of WestJet Rewards program. We note that the move coincides nicely with WestJet’s international expansion.

WestJet wraps up travel Expos for the year. In the Expos, travel agents connect with WestJet representatives and WestJet vacation and destination partners. The company runs the expos to gather feedback and communicate the airline’s vision for international expansion. We see this as a good platform to support ancillary revenue from full travel packages, in conjunction with WestJet’s recent partnership with Switchfly.



Air Canada (TSX: AC)

Top Pick, Speculative Risk; \$33 PT (from \$31)

SUMMARY

Market price:	\$27.76	52-Wk High:	\$28.70
Yield (12-mth):	0.0%	52-Wk Low:	\$11.60
Total est. return:	19%	Mkt Cap (MM):	\$7,690
Shares O/S (MM):	277.0	Net Debt (MM):	\$6,393
Float (MM):	\$7,690	EV (MM):	\$14,083

CONFERENCE CALL DETAILS

- Wednesday, October 25, at 9:00AM ET
- 1-800-478-9326

Q3/17 set-up. We had previously updated our estimates following Air Canada’s investor day on September 19. As such, we are not making any changes to our estimates and our Q3/17 EBITDAR estimate stands at \$1,479M (vs. consensus of \$1,385M). The stock has seen strong gains during the quarter, which might lead many to be cautious. We note that our estimates are above consensus and are based off a yield -1.4% for the quarter, while our Fare Tracker indicates a yield of roughly 0.9% for AC. Accordingly, we believe that analyst estimates might prove conservative.

Maintaining Top Pick, Speculative Risk. AC continues to be by far the most interesting investment opportunity in our coverage universe, in our view. Moreover, we reiterate that we believe 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.

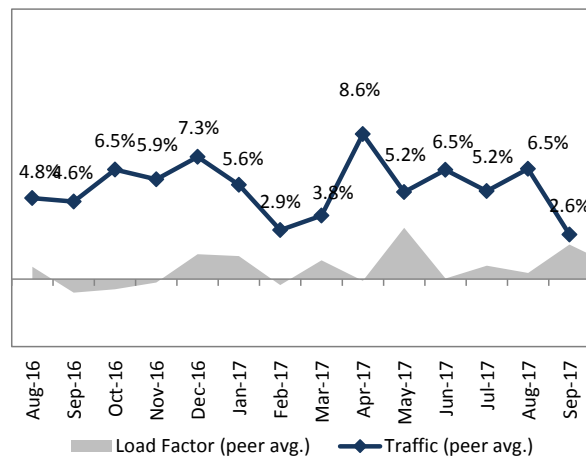
STOCK SET-UP

<i>Q3/17 performance</i>	
Absolute	51.5%
vs. S&P/TSX	4817 bps

<i>Short Interest (Days to Cover)</i>	
Current	1.5
3-Month Average	4.4

<i>Analyst Sentiment</i>	
Outperform	76%
Sector Perform	24%
Underperform	0%

TRAFFIC DATA



	Q3/17E	Y/Y	2017E	Y/Y	2018E	Y/Y	2019E NEW	
Traffic: RPMs (% chg)	13.5%	-539bp	11.9%	-133bp	5.0%	-690bp	2.0%	
Capacity: ASMs (% chg)	10.0%	-1092bp	11.0%	-361bp	6.0%	-505bp	3.0%	
Load Factor (%pts)	88.2%	272bp	83.1%	63bp	82.3%	-78bp	81.5%	
Yield (% chg)	-1.4%	559bp	-2.2%	420bp	1.0%	320bp	1.5%	
RASM (% chg)	2.3%	1092bp	-2.3%	536bp	-0.8%	150bp	0.5%	
Adj. CASM ex fuel+other (% chg)	-1.7%	412bp	-3.5%	-46bp	-0.8%	274bp	0.9%	
Avg Jet Fuel Price: (\$/Ltr)	\$0.64	23.3%	\$0.61	13.0%	\$0.57	-6.4%	\$0.57	
Revenue	4,927	10.7%	16,028	9.2%	16,796	4.8%	17,361	
Expenses	3,449	7.7%	13,019	9.3%	13,385	2.8%	13,820	
EBITDAR	1,479	18.5%	3,009	8.7%	3,411	13.3%	3,541	
<i>Consensus EBITDAR</i>		1,385		2,938		3,245		3,410

Source: Company reports, RBC CM estimates

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

Priced as of market close October 12, 2017



Chorus Aviation (TSX : CHR)

Outperform; \$9.50 PT (from \$8.50)

SUMMARY

Market price:	\$8.59	52-Wk High:	\$8.73
Yield (12-mth):	5.6%	52-Wk Low:	\$6.00
Total est. return:	16%	Mkt Cap (MM):	\$1,077
Shares O/S (MM):	125.4	Net Debt (MM):	\$1,161
Float (MM):	\$1,077	EV (MM):	\$2,238

STOCK SET-UP

Q3/17 performance	
Absolute	10.0%
vs. S&P/TSX	667 bps

Short Interest (Days to Cover)	
Current	1.1
3-Month Average	1.3

Analyst Sentiment	
Outperform	100%
Sector Perform	0%
Underperform	0%

CONFERENCE CALL DETAILS

- Wednesday, November 8, at 8:30AM ET
- 1-888-231-8191

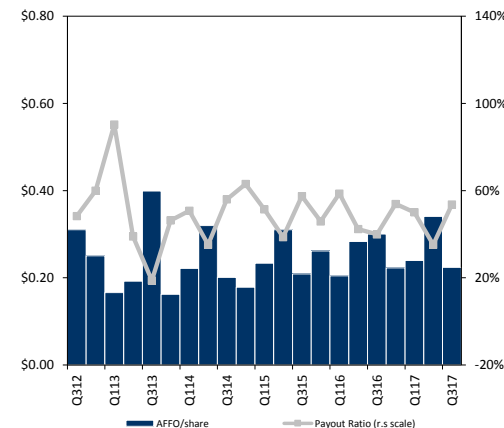
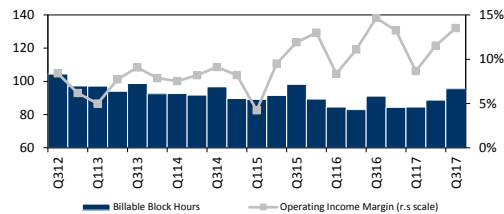
Q3/17 set-up. On a quarterly perspective, we do not see much in the way of EBITDAR variability. For the quarter, we are looking for EBITDAR of \$100MM, in line with consensus of \$101MM.

Progress on leasing subsidiary. Chorus’s leasing portfolio had grown to 17 aircraft by the end of Q2. For this quarter, we will be looking for management’s commentary on the deployment of the remaining capital under the \$200M private placement. The company noted that it expects to draw down all the capital by the end of Q218.

Introducing 2019E. We introduce our 2019 estimates and are now valuing Chorus on our 2019 EBITDAR forecast of \$420M at a 6.5x EV/EBITDAR multiple. This pushes our price target up to \$9.50 (from \$8.50).

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

OPERATING METRICS



	Q3/17E	Y/Y	2017E	Y/Y	2018E	Y/Y	2019E	Y/Y	
Revenue breakdown									
Flight revenue including charter	212	-0.4%	8.2%	785	4.7%	805	2.6%	844	4.9%
Leasing under CPA	25	0.0%	-4.2%	106	7.2%	98	-7.3%	98	-0.1%
Margin compensation	28	0.0%	0.5%	111	0.7%	111	0.1%	111	0.0%
Incentives	4	0.0%	-15.3%	16	-26.1%	12	-25.3%	12	0.0%
Pass through revenue	76	1.2%	7.2%	281	3.7%	281	-0.1%	289	3.5%
Other revenue	15	0.0%	155.7%	58	132.1%	61	4.3%	61	0.0%
Total Revenues	360	0.0%	8.7%	1,358	6.3%	1,368	0.8%	1,415	3.6%
Total Expenses	311	0.0%	10.2%	1,192	5.9%	1,169	-1.9%	1,222	4.7%
EBITDAR	100	40.3%	42.8%	366	47.6%	401	9.4%	420	5.0%
Consensus EBITDAR	101		371		423		479		

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

Priced as of market close October 12, 2017



WestJet (TSX: WJA)

Sector Perform; \$28 Price Target

SUMMARY

Market price:	\$27.64	52-Wk High:	\$27.77
Yield (12-mth):	2.0%	52-Wk Low:	\$20.52
Total est. return:	3%	Mkt Cap (MM):	\$3,239
Shares O/S (MM):	117.2	Net Debt (MM):	\$1,239
Float (MM):	\$3,179	EV (MM):	\$4,479

STOCK SET-UP

<i>Q3/17 performance</i>	
Absolute	14.6%
vs. S&P/TSX	1124 bps

<i>Short Interest (Days to Cover)</i>	
Current	4.0
3-Month Average	4.4

<i>Analyst Sentiment</i>	
Outperform	22%
Sector Perform	61%
Underperform	17%

CONFERENCE CALL DETAILS

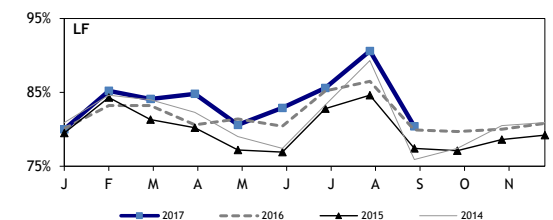
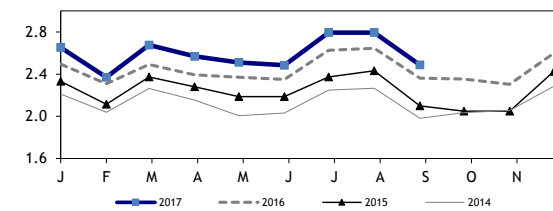
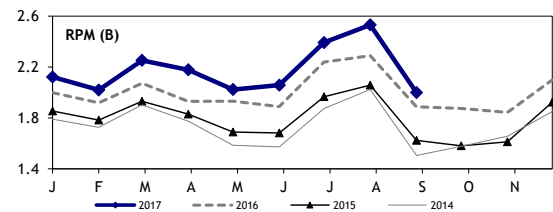
- Tuesday, October 31 (time TBD)

Q3/17 set-up. Our Fare Tracker showed that fares for Q3 came in above an easy comp (WJA had deep fare sale activity in Q316). Despite this, the company did post strong traffic growth and record levels of passengers and quarterly load factors, and it will also benefit from the run-up of the Canadian dollar during the quarter. We believe the focus of the call will be centered around management's international expansion and ULCC plans.

Rolling forward to 2019. We are rolling forward our target basis year to 2019E EBITDAR, which we are introducing at \$1,127M, and slightly increasing our multiple to 5.1x, which remains a slight discount to LCC peers. We are also revising our estimates slightly to account for WestJet's traffic statistics and a modest uptick in fuel pricing. We raise our Q3 EBITDAR estimate to \$351M from \$348M (vs. consensus at \$344M).

Maintaining Sector Perform. Our Fare Tracker saw lower yields for WestJet than Air Canada, which is an area of concern we had identified previously given the company's international expansion. Additionally, with material exposure to softness in western Canada and unionization of the company's pilots, we continue to see better valuation upside in AC and CHR shares.

TRAFFIC DATA











	RBC CM Q3/17			RBC CM 2017E			RBC CM 2018E			RBC CM 2019E
	Old	New	Var	Old	New	Var	Old	New	Var	New
Traffic: RPMs (% chg)	5.0%	7.9%	292bp	6.0%	6.8%	78bp	4.5%	4.5%	0bp	6.0%
Capacity: ASMs (% chg)	5.5%	5.8%	26bp	5.3%	5.4%	7bp	5.0%	5.0%	0bp	6.0%
Load Factor (%pts)	-0.4%	1.7%	211bp	0.5%	1.1%	55bp	-0.4%	-0.4%	0bp	0.0%
Yield (% chg)	2.5%	0.0%	-250bp	2.0%	1.4%	-67bp	2.0%	2.0%	0bp	0.0%
RASM (% chg)	2.0%	2.0%	3bp	2.7%	2.7%	1bp	1.5%	1.5%	0bp	0.0%
Adj. CASM ex fuel+other items (% chg)	1.0%	0.9%	-8bp	2.6%	2.5%	-2bp	0.3%	0.3%	0bp	1.3%
Avg Jet Fuel Price (\$/Ltr)	0.62	0.62	0.0%	0.61	0.61	0.4%	0.58	0.59	1.5%	0.56
Revenue	1,210	1,213	0.3%	4,459	4,462	0.1%	4,753	4,756	0.1%	5,042
Expenses	862	862	0.0%	3,458	3,463	0.1%	3,669	3,691	0.6%	3,915
EBITDAR	348	351	1.0%	1,001	1,000	-0.1%	1,084	1,065	-1.8%	1,127
Consensus EBITDAR		344			1031			1,136		1,222

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

Priced as of market close October 12, 2017

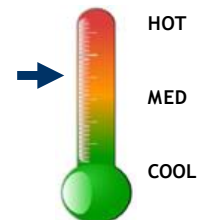
The Bombardier New Order Map

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
Qatar Investment Authority	Commercial: C-Series	100 potential (~\$8B)	QIA and Qatar Air plan to submit a joint application to set up a new Indian carrier according to Bloomberg. Indicated 100 planes needed for the new venture and interest in the C-Series.	
Air Baltic (Updated)	Commercial: C-Series	14 potential (~\$1.3B)	Air Baltic's CEO commented that the airline intends to finalize an order for at least 14 C-Series planes in the near future, and "definitely before the end of next year."	
Multiple airlines	Commercial: C-Series	Potentially 50+ (~\$3.4B)	Given eight airlines with Cseries order commitments (at 200+ aircraft), BBD could announce several conversions to firm orders.	
Chinese Airlines (Updated)	Commercial: C-Series	+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—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. On September 26, 2017, a senior Bombardier executive announced that the company had received term sheets from Chinese lessors and was in talks with China's three biggest airlines.	
Latin American Airlines	Commercial: C-Series	Uncertain	Bombardier is set to take the C-Series 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: C-Series	Uncertain	Following the Delta win, JetBlue has resumed talks with Bombardier. The C-Series may substitute E-190s for short-haul, high-frequency routes out of Boston.	
AtlasJet	Commercial: C-Series	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.	
CityJet	Commercial: C-Series	Uncertain	CityJet chose to take 15 Superjets over 12-year leases. A C-Series order is still possible, but timing has likely been pushed out.	

OVERALL HEAT GAUGE

We are maintaining the heat at more elevated levels. Despite the potentially subdued orders from US airlines because of preliminary duties imposed on Delta's C-Series order, Bombardier has created interest overseas. With the C-Series now on revenue-generating flights, and as performance and dispatch reliability numbers come in, we believe there is a pick-up in interest in the C-Series.





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

- **Bombardier expects to close sales in China.** A senior Bombardier executive commented during an interview that the company expects to close deals with Chinese airlines in the coming months. Bombardier is in talks with China's three biggest airlines as well as many regional airlines. While China limits regional jets to 100 seats, Bombardier provided assurances that it is able to make the necessary adjustments. Additionally, Bombardier received term sheets from Chinese lessors for C-Series deliveries. (Source: Reuters, September 26)
- **Air Baltic to go to an all-jet fleet.** Air Baltic's CEO commented the airline intends to finalize an order for at least 14 C-Series planes in the near future. The new order would add to Air Baltic's prior order of 20 C-Series jets, attesting to the benefits that airlines can attain from the aircraft. The potential deal is valued at \$1.25 billion based on current list prices. (Source: Bloomberg, September 27)
- **The World Trade Organization will investigate government subsidies to Bombardier.** On behalf of Embraer, Brazil requested that the WTO to investigate \$3 billion in alleged subsidies to Bombardier from the Canadian government. Brazilian officials commented that the subsidies have caused injury to Embraer. We note that the WTO's determination of countervailing and anti-dumping shares the same framework as the rules set out by the US Commerce Department and its administrative branches. (Source: Bloomberg, September 29)

Regional jets

- **Reuters reported that Lufthansa is one of the several parties interested in acquiring parts of Air Berlin's assets.** Lufthansa is targeting 41 A320s and 20 Bombardier Q400s from Air Berlin. The planes are earmarked for Lufthansa's \$1 billion expansion of its Eurowings fleet. While the exact number of planes acquired will depend on the success of talks with Air Berlin, Lufthansa confirmed that it would expand the Eurowings fleet regardless of the success of its Air Berlin bid, which could potentially lead to new orders for Bombardier. (Source: Reuters, September 26)
- **Bombardier announced the sale of 25 Q400 Turboprops with an option of 25 more to Indian carrier SpiceJet, valuing the order at \$1.7 billion at current list prices.** The aircraft will have a 90-seat configuration, as opposed to the airline's current Q400s, which have a 78-seat configuration. The order had originally been announced at the Paris Air Show and has now been completed. (Source: Bombardier, September 27)
- **Embraer unveils 70-seat version of its E175.** Embraer is targeting the CRJ700 given that of the 340 70-seat planes operated by North American airlines, 280 are CRJ700 and 705s. Despite the move, the CRJ series has a 99.5% reliability and seat-cost advantage over competing aircraft, making it a strong contender to replace the retiring fleet in the seat segment. (Source: Flight Global, September 26)

Business jets

- **Bombardier adds aircraft to Learjet European fleet.** Bombardier sold two Learjet 75s to UK private jet charter provider Zenith Aviation. The purchase adds to Zenith's existing fleet and was prompted by client requests for the Learjet brand. Learjet's presence in Europe now stands at around 160 aircraft.



CAE

Civil

- **More simulator providers enter the Chinese market – Thales delivers helicopter FFS in Tianjin.** Thales delivered a Reality H EC135 helicopter full flight simulator to a recently inaugurated flight training center in Tianjin. The simulator was delivered as a part of an agreement with the Haite Group. Thales's VP of training noted that the new center will be instrumental in meeting the increasing demand for helicopter pilot training in China, and that the Group will order more simulators to support H135 fleet's growth. It is estimated that the country needs thousands of civil helicopters over the next 20 years for both personal and commercial use, with applications such as emergency medical services (Vertical Magazine, September 27 2017).
- **CAE expands footprint in civil FFS training with launch of advanced pilot training program.** CAE launched its Master Pilot Training Program across its aviation training centers worldwide. The program is designed as a career advancement tool for pilots who are currently in flight to receive continued education and improve situational response capabilities. In previous calls and conferences, management estimated that around three-quarters of its training network is available for expansion into higher-value training, which should help to increase the dollar generated per simulator per hour with increased utilization. We anticipate that the rollout of this program will take time to ramp up and see it as part of CAE's strategy to improve on its commercial capacity used for wet training (CAE, October 10, 2017).

Military

- **USAF began working with US airline industry; in midst of discussions for setting up a joint training academy.** In response to the ongoing pilot shortage issue, USAF (United States Air Force) began working with the US airline industry to develop a joint "National Training Academy". Currently, simulator training does not count toward the 1,500 hours of flight time required by FAA. The training academy would provide pilots with advanced simulator training, which would start to count toward the 1,500-hour requirement. The proposed academy, if approved by regulators, should help make training more available to interested pilots and increase simulators' capacity utilization (FlightGlobal, October 2, 2017).
- **L3 Technologies acquires military pilot training provider Doss Aviation.** L3 Technologies acquired Doss Aviation, the sole provider of initial flight training to the US Air Force that recently received authorization to train international military pilots. Under the acquisition, Doss aviation has been renamed "L3 Doss" and will be integrated into L3's Electronic Systems business segment. Doss owns and operates a full-service training facility in Colorado, where it provides curriculum coursework and flight training for fixed-wing and unmanned aircraft pilots. Doss generates ~50MM in annual sales, and the acquisition is said to be accretive to earnings. L3's president noted that the acquisition allows L3 to combine its existing training solutions with Doss's existing military training base and accelerates a strategic focus area for the company (L3 Technologies, September 14, 2017).



The Landing Strip

World Passenger Symposium

When: October 24–26

Where: Barcelona, Spain

What: The International Air Transport Association hosts an event that brings together more than 700 industry stakeholders from across the aviation supply chain to discuss ways to maximize the customer experience.

The Buzz: Industry stakeholders from around the world will provide insight about successful initiatives. Speakers include the CEO of Dubai Airports and the CIO of Heathrow Airport. Topics discussed will range from customized travel experiences to advanced passenger processing.



Valuation and risks to rating and price target

Air Canada

On a 4.5x EV/EBITDAR applied to our 2019 estimates, we derive our price target of \$33. Our discount to the peer legacy group average is 0.25x. 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, 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 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 \$9.50 price target on CHR shares is derived from an EV/EBITDAR multiple approach. We apply a 6.5x EBITDAR multiple to our 2019E EBITDAR at \$420MM, 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. These represent risks to our rating and price target.

WestJet

Our \$28 price target is based on an EV/EBITDAR approach whereby we apply a 5.1x multiple to our 2019 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 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: Airline Comparables

Symbol	12-Oct-17		EV/EBITDAR				EV/Sales				EBITDAR Margin				Net Debt to EBITDAR	
	Price		2016	2017E	2018E	2019E	2016	2017E	2018E	2019E	2016	2017E	2018E	2019E		
Discount Airlines																
WestJet	WJA-CA	C\$	\$27.64	5.9x	5.8x	5.4x	5.1x	1.4x	1.3x	1.2x	1.1x	24%	22%	22%	22%	2.4x
Southwest	LUV-US	US\$	\$58.81	6.8x	7.1x	6.2x	6.1x	1.8x	1.8x	1.7x	1.6x	27%	25%	27%	27%	0.4x
JetBlue	JBLU-US	US\$	\$20.34	4.6x	5.1x	4.7x	4.7x	1.4x	1.3x	1.2x	1.1x	30%	25%	25%	24%	1.2x
Discount Average				5.8x	6.0x	5.5x	5.3x	1.5x	1.4x	1.4x	1.3x	27%	24%	25%	24%	0.8x
Mainline Airlines																
Air Canada	AC-CA	C\$	\$27.76	5.3x	4.9x	4.3x	4.1x	1.0x	0.9x	0.9x	0.8x	19%	19%	20%	20%	2.0x
Delta Air Lines	DAL-US	US\$	\$53.11	5.3x	5.2x	5.0x	5.2x	1.1x	1.1x	1.1x	1.1x	22%	21%	22%	20%	0.8x
United Continental	UAL-US	US\$	\$66.64	4.5x	5.2x	4.9x	4.8x	0.9x	0.9x	0.9x	0.9x	21%	17%	18%	18%	2.0x
American Airlines	AAL-US	US\$	\$52.65	5.1x	5.7x	5.5x	6.7x	1.2x	1.1x	1.1x	1.1x	23%	20%	20%	16%	2.5x
Mainline Average				5.0x	5.3x	4.9x	5.2x	1.1x	1.0x	1.0x	1.0x	21%	19%	20%	19%	1.8x
Regional Airlines																
Chorus Aviation	CHR-CA	C\$	\$8.59	8.6x	7.6x	6.9x	6.6x	2.2x	2.0x	2.0x	2.0x	25%	27%	29%	30%	4.5x
SkyWest Inc.	SKYW-US	US\$	\$46.30	6.2x	6.3x	6.5x	6.5x	2.2x	2.1x	2.1x	2.1x	35%	34%	33%	32%	4.2x
Regional Average				7.4x	7.0x	6.7x	6.6x	2.2x	2.1x	2.1x	2.0x	30%	30%	31%	31%	4.3x
Airline Average				5.8x	5.9x	5.5x	5.5x	1.5x	1.4x	1.4x	1.3x	25%	23%	24%	23%	2.2x

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at the close on October 12, 2017



Appendix 2: Aerospace Comparables

Company	Exch: Ticker	12-Oct Price	CY EPS ⁽¹⁾			CY PER			CY EV/EBITDA ⁽¹⁾			Mkt Cap B	
			2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E		
Aerospace													
Boeing*	NYSE: BA	US\$	\$261.91	\$7.24	\$9.90	\$10.64	32.6x	23.9x	22.2x	18.3x	12.0x	11.4x	\$154.8
Embraer	NYSE: ERJ	US\$	\$22.29	\$1.58	\$1.43	\$1.47	14.8x	16.5x	15.9x	6.2x	6.3x	6.1x	\$4.1
General Dynamics*	NYSE: GD	US\$	\$213.72	\$8.64	\$9.80	\$10.53	23.0x	20.3x	18.9x	14.7x	13.2x	12.4x	\$64.0
Textron	NYSE: TXT	US\$	\$53.55	\$2.62	\$2.52	\$2.95	18.7x	19.4x	16.6x	10.2x	10.4x	9.1x	\$14.2
Average							22.3x	20.0x	18.4x	12.3x	10.5x	9.8x	
Transportation & Conglomerates													
Siemens	XE:SIE	EUR	119.50	6.93	7.82	8.03	17.3x	15.3x	14.9x	12.4x	11.2x	10.7x	\$101.6
General Electric**	NYSE: GE	US\$	\$23.05	\$1.49	\$1.54	\$1.65	15.5x	15.0x	14.0x	16.1x	14.3x	13.8x	\$199.6
United Technologies*	NYSE: UTX	US\$	\$118.82	\$6.61	\$6.57	\$6.86	18.0x	18.1x	17.3x	10.6x	10.4x	10.2x	\$94.9
Average							16.9x	16.1x	15.4x	13.0x	12.0x	11.6x	
Aerospace Multiples							22.3x	20.0x	18.4x	12.3x	10.5x	9.8x	
Transportation Multiples (ex. GE, UTX)							17.3x	15.3x	14.9x	12.4x	11.2x	10.7x	
Average							19.8x	17.6x	16.6x	12.4x	10.8x	10.2x	
Bombardier⁽²⁾	TSX: BBD.B	C\$	\$2.32	-\$0.15	\$0.00	\$0.08	nmf	nmf	22.1x	14.3x	11.6x	7.7x	\$5.2

*Covered by RBC Capital Markets, LCC Aerospace and Defense analyst Matthew McConnell

**Covered by RBC Capital Markets, LCC multi-industry and electrical equipment sector analyst Deane Dray

(1) Peer group consensus EPS and EBITDA estimates sourced from FactSet

(2) Using RBC Capital Markets EPS and EBITDA estimates

Sources: Company reports, FactSet, and RBC Capital Markets estimates. Priced at the close on October 12, 2017



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

FY Dec 31	2016	Q1/17	Q2/17	Q3/17E	Q4/17E	2017E	Q1/18E	Q2/18E	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	2020E
Traffic / RPM (MMs)	76,481	18,341	20,928	27,612	18,702	85,583	19,258	21,974	28,993	19,637	89,862	19,643	22,414	29,573	20,029	91,659	93,492
% change	13.2%	14.0%	13.6%	13.5%	6.0%	11.9%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Capacity / ASM (MMs)	92,726	22,894	25,357	31,304	23,416	102,971	24,268	26,878	33,182	24,821	109,150	24,996	27,685	34,177	25,566	112,424	115,797
% change	14.7%	15.4%	13.5%	10.0%	6.0%	11.0%	6.0%	6.0%	6.0%	6.0%	6.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Load Factor (%)	82.5%	80.1%	82.5%	88.2%	79.9%	83.1%	79.4%	81.8%	87.4%	79.1%	82.3%	78.6%	81.0%	86.5%	78.3%	81.5%	80.7%
change (% pts)	-1.0%	-1.0%	0.1%	2.7%	0.0%	0.6%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%
Yield (\$)	0.169	0.165	0.165	0.164	0.167	0.165	0.167	0.167	0.165	0.169	0.167	0.169	0.169	0.168	0.172	0.170	0.172
% change	-6.4%	-5.1%	-1.4%	-1.4%	-1.0%	-2.2%	1.0%	1.0%	1.0%	1.0%	1.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
RASM (Rev per unit of capacity, cents)	14.2	13.2	13.6	14.4	13.4	13.9	13.2	13.6	14.5	13.4	13.7	13.3	13.7	14.5	13.4	13.8	13.9
CASM (excl. fuel) (cents)	11.5	12.9	11.2	9.5	11.5	11.1	12.4	11.0	9.8	11.3	11.0	12.5	11.1	9.9	11.4	11.1	11.2
Total Revenues	14,677	3,642	3,910	4,927	3,549	16,028	3,773	4,067	5,209	3,747	16,796	3,898	4,205	5,386	3,872	17,361	17,946
Wages, salaries and benefits	2510	644	663	670	652	2629	683	703	711	692	2789	718	739	747	727	2930	3064
% Sales	17.1%	17.7%	17.0%	13.6%	18.4%	16.4%	18.1%	17.3%	13.6%	18.5%	16.6%	18.4%	17.6%	13.9%	18.8%	16.9%	17.1%
Aircraft Fuel - total	2606	754	797	889	706	3146	712	776	913	700	3101	724	790	929	714	3157	3265
% Sales	17.8%	20.7%	20.4%	18.0%	19.9%	19.6%	18.9%	19.1%	17.5%	18.7%	18.5%	18.6%	18.8%	17.2%	18.5%	18.2%	18.2%
Sales and distribution costs	703	205	199	203	187	795	212	206	216	194	827	219	212	222	199	852	878
% Sales	4.8%	5.6%	5.1%	4.1%	5.3%	5.0%	5.6%	5.1%	4.1%	5.2%	4.9%	5.6%	5.0%	4.1%	5.1%	4.9%	4.9%
Food, beverages, supplies	349	85	97	116	87	384	88	100	119	89	397	90	103	123	92	409	421
% Sales	2.4%	2.3%	2.5%	2.4%	2.4%	2.4%	2.3%	2.5%	2.3%	2.4%	2.4%	2.3%	2.5%	2.3%	2.4%	2.4%	2.3%
Aircraft maintenance	880	228	226	237	264	955	235	233	244	272	984	242	240	251	280	1013	1044
% Sales	6.0%	6.3%	5.8%	4.8%	7.4%	6.0%	6.2%	5.7%	4.7%	7.3%	5.9%	6.2%	5.7%	4.7%	7.2%	5.8%	5.8%
Airport and navigation fees	859	210	230	269	215	925	223	244	285	228	980	229	251	294	235	1010	1040
% Sales	5.9%	5.8%	5.9%	5.5%	6.1%	5.8%	5.9%	6.0%	5.5%	6.1%	5.8%	5.9%	6.0%	5.5%	6.1%	5.8%	5.8%
Communications and information technol	242	71	58	63	63	255	68	53	56	60	237	70	55	58	61	244	240
% Sales	1.6%	1.9%	1.5%	1.3%	1.8%	1.6%	1.8%	1.3%	1.1%	1.6%	1.4%	1.8%	1.3%	1.1%	1.6%	1.4%	1.3%
Other	3271	847	867	912	745	3371	849	887	979	779	3494	877	917	1013	805	3612	3733
% Sales	22.3%	23.3%	22.2%	18.5%	21.0%	21.0%	22.5%	21.8%	18.8%	20.8%	20.8%	22.5%	21.8%	18.8%	20.8%	20.8%	20.8%
Regional airline expense (ex fuel and DA)	2027	521	535	567	497	2119	528	549	599	506	2182	546	568	619	523	2256	2331
% Sales	13.8%	14.3%	13.7%	11.5%	14.0%	13.2%	14.0%	13.5%	11.5%	13.5%	13.0%	14.0%	13.5%	11.5%	13.5%	13.0%	13.0%
Total Operating Costs	11,420	3,044	3,137	3,359	2,920	12,460	3,070	3,202	3,524	3,014	12,810	3,169	3,306	3,637	3,115	13,227	13,684
EBITDAR	2,768	342	670	1,479	519	3,009	440	759	1,592	620	3,411	457	789	1,654	641	3,541	3,651
% of sales	18.9%	9.4%	17.1%	30.0%	14.6%	18.8%	11.6%	18.7%	30.6%	16.5%	20.3%	11.7%	18.8%	30.7%	16.6%	20.4%	20.3%
EPS (F.D) (\$ (Exc. Special charges)	\$ 4.11	\$ (0.32)	\$ 0.78	\$ 3.56	\$ 0.29	\$ 4.31	\$ (0.05)	\$ 0.98	\$ 3.56	\$ 0.62	\$ 5.12	\$ (0.06)	\$ 1.01	\$ 3.68	\$ 0.64	\$ 5.26	\$ 5.45

Source: RBC CM estimates, Company reports



Chorus Aviation (TSX: CHR.B)

FY Dec 31	2016	Q1/17	Q2/17	Q3/17E	Q4/17E	2017E	Q1/18E	Q2/18E	Q3/18E	Q4/18E	2018E	2019E
Billable Block Hours ('000s)	342,910	84,515	88,705	95,620	88,580	357,420	85,360	89,592	96,577	89,466	360,995	364,605
% change	-6.9%	0.0%	6.9%	5.0%	5.0%	4.2%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Available Seat Miles ('000s)	5,073	1,182	1,352	1,464	1,294	5,292	1,194	1,365	1,479	1,307	5,345	5,398
change (% pts)	-6.9%	0.0%	6.9%	5.0%	5.0%	4.3%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
CASM (cents)	22.2	24.8	21.8	21.3	22.6	22.5	23.7	21.4	20.8	21.9	21.9	22.6
% change	-13.3%	-0.3%	0.1%	4.9%	2.1%	1.5%	-4.2%	-2.1%	-2.4%	-3.1%	-2.9%	3.5%
Chorus Aviation Income Statement (\$MM)												
Revenue	1,277	321	333	360	344	1,358	337	341	354	336	1,368	1,415
% change	-17.3%	0.0%	7.5%	8.7%	9.1%	6.3%	5.1%	2.3%	-1.6%	-2.3%	0.8%	3.4%
Salaries, wages and benefits	433	114	112	108	112	446	104	105	102	105	417	425
% Sales	34%	36%	33%	30%	32%	33%	31%	31%	29%	31%	30%	30%
Aircraft fuel	3	1	1	1	0	2	0	0	1	0	1	2
% Sales	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Depreciation and amortization	81	22	23	23	24	92	25	25	25	26	101	119
% Sales	6%	7%	7%	6%	7%	7%	7%	7%	7%	8%	7%	8%
Food and beverage	13	3	0	4	4	11	3	0	4	4	11	12
% Sales	1%	1%	0%	1%	1%	1%	1%	0%	1%	1%	1%	1%
Aircraft maintenance	168	44	46	49	33	172	44	46	49	33	172	177
% Sales	13%	14%	14%	14%	9%	13%	13%	14%	14%	10%	13%	13%
Airport and navigation fees	161	39	43	46	42	170	41	43	47	42	174	177
% Sales	13%	12%	13%	13%	12%	13%	12%	13%	13%	13%	13%	13%
Aircraft rent	91	25	27	29	29	109	25	25	25	25	100	107
% Sales	7%	8%	8%	8%	8%	8%	7%	7%	7%	7%	7%	8%
Terminal handling	39	9	6	10	12	38	10	7	11	12	40	41
% Sales	3%	3%	2%	3%	3%	3%	3%	2%	3%	4%	3%	3%
Other	136	35	38	41	38	152	31	39	42	39	152	160
% Sales	11%	11%	11%	11%	11%	11%	9%	12%	12%	12%	11%	11%
Total Operating Expenses	1,125	293	295	311	293	1,192	283	292	307	287	1,169	1,222
Operating Income	151	28	38	49	51	165	53	49	47	49	199	193
EBITDAR	324	75	88	100	104	366	104	100	98	100	401	420
% of sales	25.4%	23.3%	26.4%	27.8%	30.2%	27.0%	30.8%	29.2%	27.5%	29.7%	29.3%	29.7%
EBITDA	248	54	66	71	75	266	79	75	73	75	300	313
% of sales	19.4%	16.9%	19.7%	19.8%	21.8%	19.6%	23.3%	21.9%	20.5%	22.2%	22.0%	22.1%
Net Income	102	27	27	31	32	117	34	31	30	31	127	124
EPS (F.D) (\$) (Excluding Special charges)	\$ 0.81	\$ 0.21	\$ 0.21	\$ 0.25	\$ 0.26	\$ 0.93	\$ 0.27	\$ 0.25	\$ 0.24	\$ 0.25	\$ 1.01	\$ 0.98
CFPS (F.D) (\$) (Excluding Special charges)	\$ 1.69	\$ 0.38	\$ 0.41	\$ 0.48	\$ 0.50	\$ 1.78	\$ 0.53	\$ 0.50	\$ 0.49	\$ 0.50	\$ 2.02	\$ 2.03

Source: Company reports, RBC Capital Markets estimates



WESTJET (TSX: WJA)

FY Dec. 31 (\$MM's)	Q1/16	Q2/16	Q3/16	Q4/16	2016	Q1/17	Q2/17	Q3/17E	Q4/17E	2017E	Q1/18E	Q2/18E	Q3/18E	Q4/18E	2018E	2019E
Traffic (RPMs in MM)	5,988	5,749	6,414	5,816	23,967	6,393	6,260	6,922	6,020	25,594	6,681	6,541	7,233	6,290	26,745	28,350
% change	7.6%	10.6%	13.6%	13.7%	11.3%	6.8%	8.9%	7.9%	3.5%	6.8%	4.5%	4.5%	4.5%	4.5%	4.5%	6.0%
Capacity (ASMs in MM)	7,294	7,116	7,636	7,253	29,299	7,699	7,564	8,076	7,544	30,883	8,084	7,942	8,480	7,921	32,427	34,373
% change	7.0%	6.9%	10.6%	11.2%	8.9%	5.5%	6.3%	5.8%	4.0%	5.4%	5.0%	5.0%	5.0%	5.0%	5.0%	6.0%
Load Factor in (%)	82.1%	80.8%	84.0%	80.2%	81.8%	83.0%	82.8%	85.7%	79.8%	82.9%	82.6%	82.4%	85.3%	79.4%	82.5%	82.5%
change (%pts)	0.5%	2.7%	2.2%	1.8%	1.8%	0.9%	2.0%	1.7%	-0.4%	1.1%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	0.0%
Yield (cents per RPM)	17.22	16.51	17.53	17.50	17.20	17.43	16.85	17.53	17.94	17.44	17.78	17.19	17.88	18.30	17.78	17.78
% change	-11.6%	-8.9%	-5.3%	-6.7%	-8.1%	1.2%	2.1%	0.0%	2.5%	1.4%	2.0%	2.0%	2.0%	2.0%	2.0%	0.0%
RASM (Revenue per unit of capacity, cents)	14.1	13.3	14.7	14.0	14.1	14.5	13.9	15.0	14.3	14.4	14.7	14.2	15.3	14.5	14.7	14.7
CASM (excl. fuel) (cents)	10.2	9.9	9.8	10.0	10.0	10.4	9.9	9.9	10.6	10.2	10.7	10.1	10.2	10.4	10.3	10.5
Total Revenues	1,031.4	949.3	1,124.3	1,017.8	4,122.9	1,114.3	1,055.0	1,213.4	1,079.8	4,462.5	1,187.7	1,124.1	1,293.4	1,150.9	4,756.2	5,041.6
% change	-4.8%	0.8%	7.6%	6.2%	2.3%	8.0%	11.1%	7.9%	6.1%	8.2%	6.6%	6.6%	6.6%	6.6%	6.6%	6.0%
Airport Operations	160.1	145.3	120.2	156.3	581.9	168.9	154.5	122.3	156.4	602.1	174.1	156.0	128.4	164.2	622.7	660.0
% change	16%	9%	-15%	8%	4%	6%	6%	2%	0%	3%	3%	1%	5%	5%	3%	6%
Aircraft Fuel	166.4	182.6	206.4	210.5	765.9	235.5	224.9	220.3	216.3	897.0	230.9	227.2	235.2	217.7	911.0	922.6
% change	-21%	-15%	0%	16%	-6%	42%	23%	7%	3%	17%	-2%	1%	7%	1%	2%	1%
Maintenance	58.7	53.3	62.1	57.3	231.5	62.0	56.7	63.2	57.4	239.2	63.9	57.2	66.4	60.2	247.7	262.6
% change	9%	-4%	0%	0%	1%	6%	6%	2%	0%	3%	3%	1%	5%	5%	4%	6%
Sales & Distribution	108.4	103.1	120.2	110.9	442.7	114.4	109.6	122.3	111.0	457.3	117.9	110.7	128.4	116.5	473.6	502.0
% change	10%	16%	22%	16%	16%	6%	6%	2%	0%	3%	3%	1%	5%	5%	4%	6%
Marketing, General & Administrative	60.9	56.3	65.6	60.5	243.2	64.3	59.8	66.7	60.5	251.3	66.3	60.4	70.0	63.5	260.3	275.9
% change	5%	-4%	12%	5%	5%	6%	6%	2%	0%	3%	3%	1%	5%	5%	4%	6%
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	142.5	131.3	153.0	141.2	567.9	150.4	139.5	155.6	141.2	586.8	155.0	140.9	163.4	148.3	607.6	644.1
% change	14%	9%	21%	13%	14%	6%	6%	2%	0%	3%	3%	1%	5%	5%	4%	6%
In-Flight	58.9	53.4	62.3	57.5	232.1	62.1	56.8	63.4	57.5	239.8	64.0	57.4	66.5	60.4	248.3	263.2
% change	22%	-2%	32%	0%	12%	6%	6%	2%	0%	3%	3%	1%	5%	5%	4%	6%
Employee Profit Sharing	22.5	-1.2	31.6	6.5	59.3	7.0	7.8	36.4	10.8	62.0	35.6	11.2	38.8	11.5	97.2	103.0
% change	-55%	-113%	-4%	-27%	-41%	-69%	-751%	15%	67%	4%	407%	45%	7%	7%	57%	6%
EBITDAR (after profit sharing)	251.3	193.2	303.5	221.0	969.0	223.0	217.9	351.3	207.5	999.8	234.4	233.2	350.2	247.2	1,065.0	1,126.8
% of sales	24.4%	20.4%	27.0%	21.7%	23.5%	20.0%	20.7%	29.0%	19.2%	22.4%	19.7%	20.7%	27.1%	21.5%	22.4%	22.4%
EPS F.D.	0.71	0.30	0.97	0.47	2.45	0.41	0.41	1.08	0.31	2.22	0.47	0.53	1.11	0.58	2.70	2.88

Source: Company Reports; RBC Capital Markets Estimates



Companies mentioned

Air Canada (TSX: AC CN; C\$27.70; Top Pick; Speculative Risk)
Bombardier Inc. (TSX: BBDB.TO; C\$2.32; Outperform; Speculative Risk)
CAE Inc. (TSX: CAE.TO; C\$22.19; Sector Perform)
Chorus Aviation Inc. (TSX: CHR.TO; C\$8.75; Outperform)
WestJet Airlines Ltd. (TSX: WJA.TO; C\$27.48; Sector Perform)

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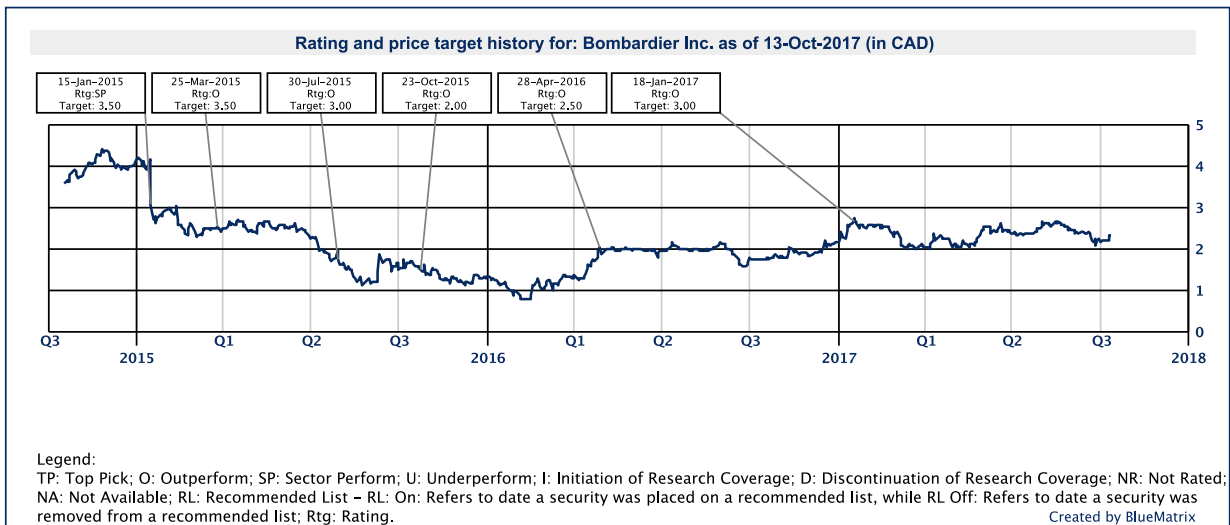
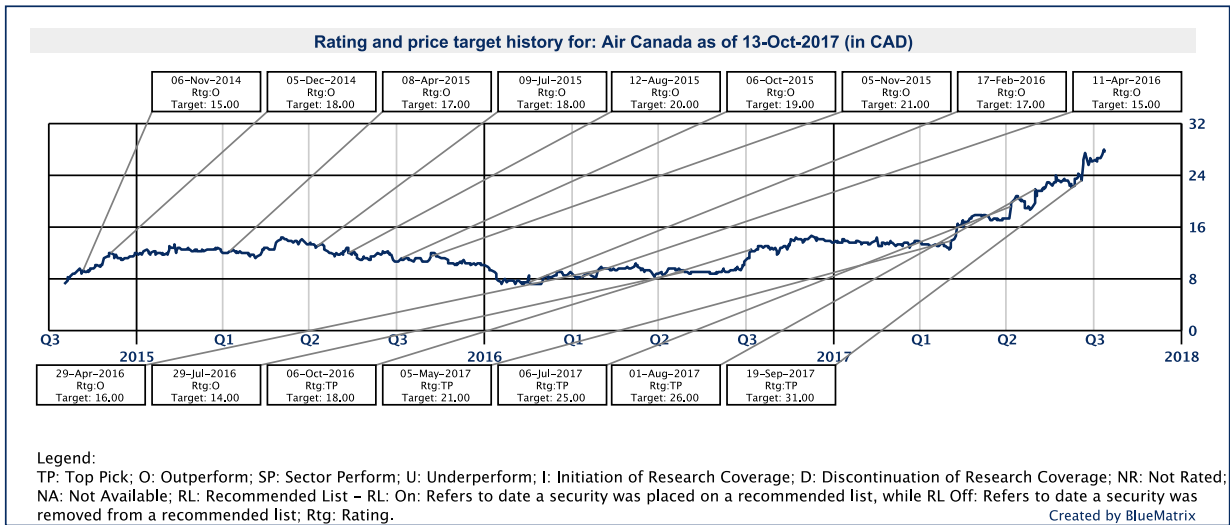
Risk Rating

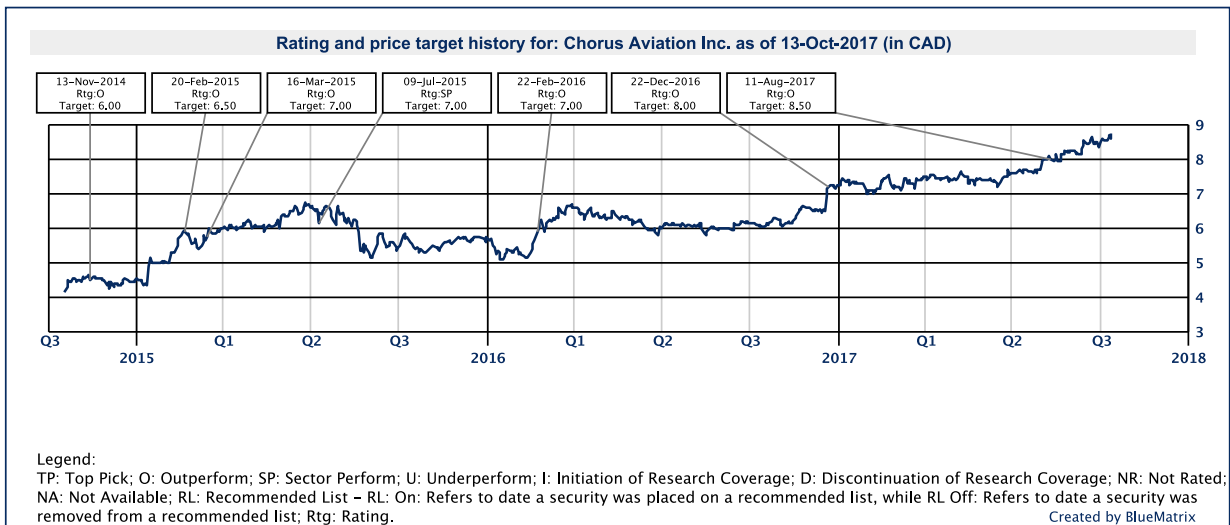
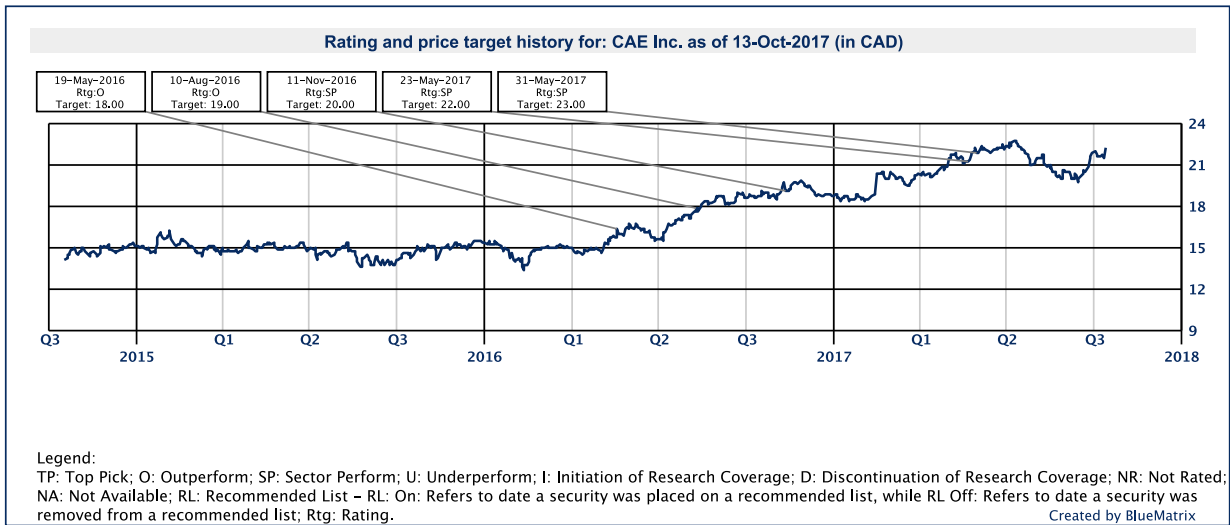
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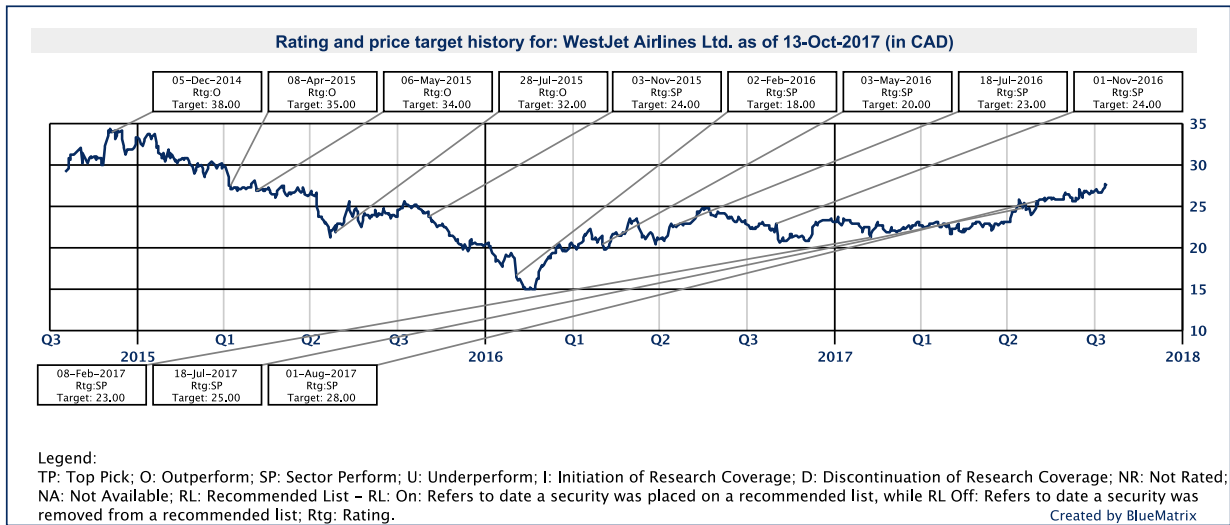
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Distribution of ratings				
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Air Canada

Valuation

On a 4.5x EV/EBITDAR applied to our 2019 estimates, we derive our price target of \$33.00. Our discount to the peer legacy group average is 0.25x. 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, 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.

Bombardier Inc.

Valuation



Our C\$3.00 price target is based on our EPS estimate for 2021 of \$0.28, discounted back to 2018, where we apply a peer P/E multiple to Bombardier Transportation and a 20% valuation discount to our Bombardier Aerospace multiple against the aerospace peers. While program risk remains, we believe recent progress on new program development and increased liquidity support a lower risk discount to Bombardier Aerospace. We believe that by taking our 2021 EPS into consideration, we are adequately reflecting both the developmental risk and cost of the CSeries while also capturing the potential and anticipated EPS upside of the program. Our price target and implied return support our Outperform rating. The Speculative Risk qualifier is owing to the company's high debt level during a period of significant investments in new products.

Risks to rating and price target

Risks to our estimates, price target, and rating include but are not limited to the performance of the global airline industry, possible changes to Bombardier's credit rating, demand from railways for Bombardier trains, and demand for commercial and business jets. For these reasons, our earnings estimates are more at risk than for most companies.

CAE Inc.

Valuation

Our 12-month price target is based on a blend of P/E, EV/EBITDA, and DCF metrics, applied to our estimates on a rolling two-year forward basis. We apply target multiples of 10x EV/EBITDA and 18x P/E to our 2-year forward (FQ2/19E–FQ1/20E) estimates to reflect recent trading multiples in line with A&D peers with similar commercial/military exposure. Our price target of \$23 supports our Sector Perform rating.

Risks to rating and price target

- Global military expenditures, particularly US expenditures, decline significantly, overly impacting simulator/training demand in the military segment.
- Competitive pressures from new upstarts and integrated aerospace/defense companies could impact revenues and margin, particularly in the event of an economic downturn.
- Decline in financial health of airline operators / manufacturers that may place airplane purchases on hold.
- Intensifying competitive environment as aerospace and defence companies consolidate or develop greater capabilities around the simulation and training space.
- FX fluctuations, particularly with a strengthening C\$, could negatively impact financial results.

Chorus Aviation Inc.

Valuation

Our \$9.50 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 6.5x EBITDAR multiple to our 2019E EBITDAR at \$420MM, 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 \$28 price target is based on an EV/EBITDAR approach whereby we apply a 5.1x multiple to our 2019 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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