



December 12, 2018

RBC Flight Deck

Fare prices robust ahead of holiday season

Both AC and WJA post healthy fare gains Y/Y. Our proprietary Fare Survey tracks price changes on selected routes to gauge the direction and magnitude of fare prices in the month. This data shows that overall fare prices are strong, with both Air Canada and WestJet showing strong gains Y/Y. AC fares are 9.8% higher than Q4 last year, the highest level since we started tracking the data in 2012. WJA fares rebounded in November, and are up a healthy 12.2% Y/Y (albeit off a weak quarter last year).

Traffic moderates in November, but capacity does too. For the month of November, WJA reported traffic growth 3.1% Y/Y (vs. RBC at 5%) on capacity growth of 4.9% (vs. RBC at 5.5%). Across the global peer group, traffic rose 4.8% Y/Y, with capacity growth up 5.5% Y/Y. This resulted in the fourth consecutive monthly decrease in the load factor for the global peers. We do note that November is typically a lull period ahead of the busy holiday season, and all indications are pointing to strong demand this holiday.

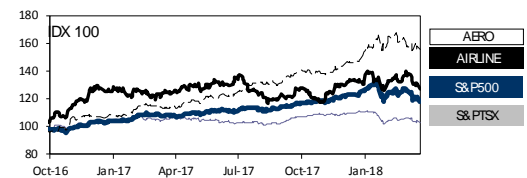
Vacation segments strong ahead of holiday season. Travelers to sun destinations are seeing fares higher as our fare tracker picked up strong fares in the Vacation segment for both Air Canada and WestJet. We also picked up strong gains in Air Canada's Domestic segment, while International and Transborder showed some weakness on a M/M basis. WestJet reported slighter higher fares for the domestic and Transborder segments M/M.

In this edition...

- **RBC Fare Tracker (p. 2):** Seeing positive fare growth from AC and WJA so far in Q4.
- **The Load Factor (p. 3):** Traffic remains robust
- **Air Buzz (p. 4) -** Bombardier Headlines



INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTSX	(3.5)	(9.1)	(8.5)	▼
S&P 500	(5.2)	(1.3)	(0.8)	▼
AMEX Airline	(4.2)	(15.9)	(15.1)	▼
AMEX Aerospace	(8.8)	(3.6)	(1.1)	▼



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	(14.3)	(10.5)	(7.0)	▼
Jet Fuel	(13.6)	(10.0)	(5.9)	▼
CAD/USD	1.2	6.6	4.3	Δ

AEROSPACE				
Bombardier	(17.0)	(27.4)	(30.6)	▼
Boeing	(12.5)	9.6	14.2	▼
EADS	(6.4)	6.7	3.1	▼
Embraer	(2.4)	(10.7)	5.4	▼
General Dynamics	(6.2)	(14.9)	(13.3)	▼
Textron	(11.6)	(11.1)	(7.9)	▼
United Technologies	(8.6)	(6.4)	(3.2)	▼

N.A. MAINLINE				
Air Canada	0.8	3.3	5.6	Δ
AMR	(5.8)	(34.4)	(33.5)	▼
Delta	(0.9)	0.3	3.3	▼
United	(4.6)	30.8	37.2	▼

N.A. REGIONAL				
Alaska	(5.1)	(14.8)	(10.2)	▼
Allegiant	2.2	(19.5)	(14.8)	Δ
Chorus Aviation	(18.0)	(40.2)	(39.3)	▼
JetBlue	(1.0)	(19.8)	(19.3)	▼
SkyWest	(14.2)	(8.6)	(9.8)	▼
Southwest	(2.5)	(21.8)	(19.2)	▼
WestJet	0.2	(30.2)	(32.4)	Δ

INTL AIRLINES				
Lufthansa	(5.2)	(37.6)	(35.8)	▼
Air France/KLM	(6.2)	(32.4)	(27.4)	▼
BA/Iberia	(7.0)	(8.1)	(5.5)	▼
Cathay Pacific	6.5	8.2	4.8	Δ
Air China	2.5	(23.0)	(9.4)	Δ
China Eastern	(4.2)	(18.7)	(0.6)	▼
China Southern	8.6	(35.8)	(27.8)	Δ
Singapore Airlines	(2.7)	(12.6)	(11.9)	▼
Qantas	(7.5)	8.3	3.4	▼

Source: Bloomberg



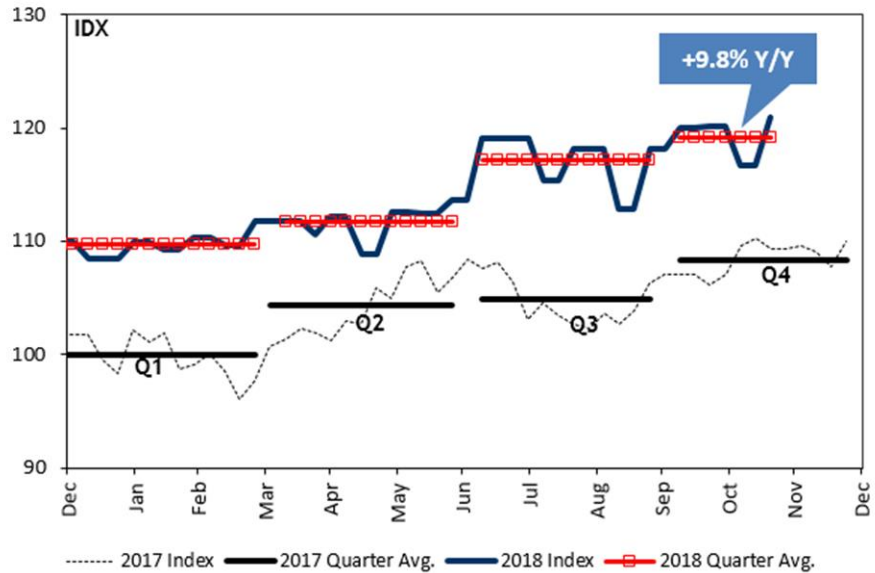
RBC Fare Survey

We present below the results of our RBC Fare Tracker. This proprietary algorithm provides investors a unique snapshot of Air Canada and WestJet’s ticket pricing strategies ... and a window into yield growth trends *before* they are announced.

Air Canada

According to the RBC Fare tracker, Air Canada fares are up 9.8% QTD from Q4 last year, which was itself a very strong quarter. Fares for Air Canada are touching the highest point since we started tracking the data in 2012.

Looking at segments, the vacation and Domestic segments reported strong gains in November, particularly towards the end of the month. However, both the International and Transborder segments reported slight weakness during the month.

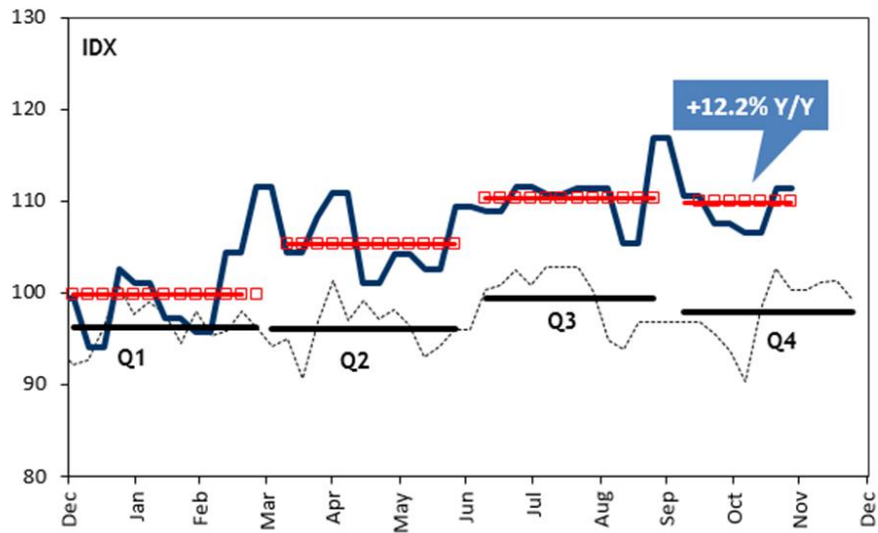


Sources: RBC Capital Markets estimates, Company websites

WestJet

According to the RBC fare tracker, fares at WestJet are trending up 12.2% Y/Y on a QTD basis (albeit Q4 in 2017 was a weak quarter for them).

On a monthly basis, fares were 3.5% higher, recovering from a particularly weak fall season. In November, all three segments reported higher fare prices, but strength was most notable in the Vacation and Transborder segments.



Sources: RBC Capital Markets estimates, Company websites

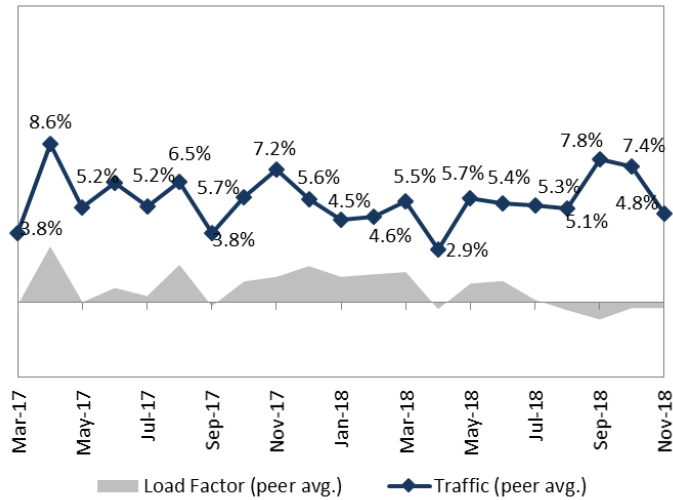


The Load Factor

Industry trends

On average, the peer group reported 4.8% traffic growth in November. This was slightly below the average capacity growth of 5.5%, leading to a decline in the load factor by 0.3%.

This is the fourth consecutive month of a decreasing load factor, mainly caused by a jump in capacity since the second half of the year. We are however, expecting capacity to moderate as more airlines remove unprofitable routes in order to contain costs.

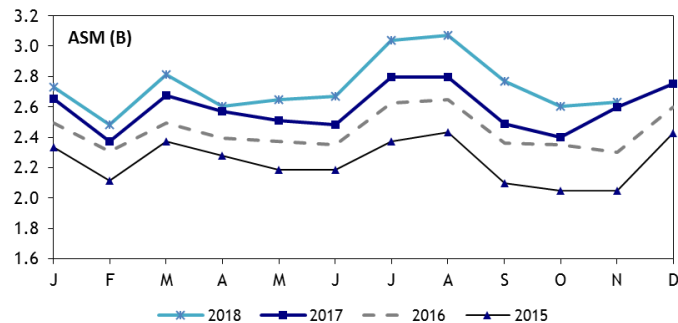
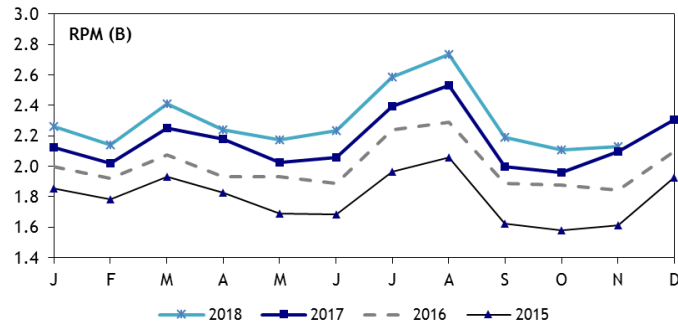


Sources: Company websites, RBC Capital Markets estimates

WestJet

WestJet reported modest traffic growth in November, up 3.1%, which was below our estimate of 5.0%. This came on the back of capacity growth of 4.9%, which was also below our estimate of 5.5%. This led to a system load factor of 81.0% (down 1.4 bps Y/Y).

Although traffic came in shy of expectations, management was prudent in reducing capacity. We received the company's 2019 guidance last week of +2-4% RASM, but note strong traffic is important for them to achieve this number. We will therefore be watching traffic trends closely over the next few months.



	November			YTD		
	2018	2017	Δ	2018	2017	Δ
RPMs (B)	2.130	2.066	+3.1%	25.206	23.601	+6.8%
ASMs (B)	2.630	2.507	+4.9%	30.063	28.244	+6.4%
Load Factor	81.0%	82.4%	-1.4 pts	83.8%	83.6%	0.2 pts

Metrics	
Traffic:	Revenue Passenger Miles = RPMs (billions)
Capacity:	Available Seat Miles = ASMs (billions)
Utilization:	Load Factor = RPMs / ASMs

Sources: Company websites, RBC Capital Markets estimate



Air Buzz

As part of RBC Flight Deck, we highlight news with implications relevant to the Canadian aerospace industry, in particular as related to Bombardier and CAE.

Bombardier

Narrow-bodies

- **Airbus wins December deliveries some breathing room after busy November.** Airbus has left itself a slightly less challenging task on deliveries for the final weeks of the year than 2017's record surge in December, but only after trimming the target with its most recent results, company data showed on Friday. Airbus said it had delivered 673 aircraft up to the end of November, leaving 109 aircraft still to be delivered in December in order to reach a core target of 782 deliveries - excluding the recently acquired Bombardier CSeries, now selling as the A220. Airbus in October said it maintained a target of 800 deliveries for 2018, but that these would now include 18 A220 models previously excluded from the goal - a move equivalent to cutting the core Airbus target by 2 percent to 782 aircraft. Had it not done so, it would have had to repeat last year's record feat of 127 deliveries in December, after taking into account a 20 percent rise in deliveries last month. (Reuters, November 26)
- **Bombardier to pitch for future Airbus composite wing work.** Bombardier will pitch to play a key role in a future Airbus composite wing programme, believing its expertise in designing and building the carbonfibre wing for the A220 gives it an edge over the European manufacturer's own factories. Airbus took control of the troubled CSeries programme in July, renaming it the A220. However, the Canadian company retained the intellectual property rights on the wing, which BAES in Belfast continues to build for Airbus as a supplier. Bombardier in Belfast was a supplier to Airbus long before the CSeries acquisition, building, among other items, nacelles for International Aero Engines V2500-powered A320 family aircraft, as well as Pratt & Whitney PW1100G-powered A320neos. (Flight Global, November 28).

Regional Jets

- **Bombardier aircraft: free cash flow a priority; sell-offs no surprise.** In many ways, Bombardier's decision to sell its Q400 turboprop programme and its business jet training segment was not surprising, given that it now only retains a minority stake in the CSeries (now the A220). The sell-off is part of a broader scheme by the company to improve its fortunes and bolster free cash flow in the near future. Perhaps now the question is how much those changes, and Bombardier's evaluation of options for the CRJ programme, will affect the commercial aerospace landscape. The answer is that there will be no shift in the pecking order. Bombardier's decision to cede a 50% stake of the CSeries to Airbus and Boeing's pursuit of a commercial JV will only strengthen the dominance Airbus and Boeing have enjoyed in the commercial aircraft industry for decades. (CAPA, November 21)

Business Jets

- **Bombardier to unveil its biggest luxury jet next week.** Bombardier Inc. says it will deliver its first Global 7500 next week as the company's biggest luxury jet makes its commercial debut. Montreal-based Bombardier is counting on the Global 7500 to generate at least \$2.5 billion of annual sales by 2020 as the company trims its commercial-plane operations to focus on business jets and trains. David Coleal, who runs the company's business-aircraft unit, said last week Bombardier is planning to ship 15 to 20 Global 7500s next year, with most of those deliveries in the second half. Shipments of the jet will likely climb to as many as 40 in 2020 as Bombardier seeks to grab market share from General Dynamics Corp.'s Gulfstream G650. (Toronto Star, December 11, 2018)



Appendix 1: Comparables

Symbol	11-Dec-18 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				
Discount Airlines																	
WestJet	WJA-CA	C\$	\$18.32	3.9x	5.5x	4.8x	4.4x	0.9x	0.8x	0.8x	0.7x	22%	15%	16%	16%	2.2x	3,898
Southwest	LUV-US	US\$	\$51.13	6.1x	6.6x	6.1x	5.7x	1.4x	1.4x	1.3x	1.2x	23%	21%	21%	21%	0.2x	29,821
JetBlue	JBLU-US	US\$	\$17.93	4.6x	5.7x	5.2x	4.3x	1.0x	0.9x	0.9x	0.8x	22%	16%	17%	19%	1.3x	7,224
Discount Average				4.9x	5.9x	5.3x	4.8x	1.1x	1.0x	1.0x	0.9x	22%	17%	18%	19%	0.7x	
Mainline Airlines																	
Air Canada	AC-CA	C\$	\$26.70	4.5x	4.8x	3.9x	3.5x	0.8x	0.7x	0.7x	0.7x	18%	15%	17%	19%	1.7x	13,313
Delta Air Lines	DAL-US	US\$	\$56.13	5.7x	6.0x	5.3x	5.1x	1.2x	1.1x	1.0x	1.0x	21%	18%	19%	19%	1.1x	48,320
United Continental	UAL-US	US\$	\$88.23	5.9x	5.9x	5.4x	4.9x	1.0x	0.9x	0.9x	0.8x	17%	16%	16%	17%	2.0x	37,831
American Airlines	AAL-US	US\$	\$34.12	5.6x	6.7x	6.0x	5.7x	1.0x	1.0x	0.9x	0.9x	19%	15%	16%	16%	3.8x	43,852
Mainline Average				5.4x	5.9x	5.2x	4.8x	1.0x	0.9x	0.9x	0.8x	19%	16%	17%	18%	2.3x	
Regional Airlines																	
Chorus Aviation	CHR-CA	C\$	\$5.76	7.9x	6.9x	5.9x	5.3x	2.0x	1.9x	1.7x	1.6x	25%	28%	29%	30%	4.4x	2,570
SkyWest Inc.	SKYW-US	US\$	\$48.59	5.8x	6.9x	6.9x	6.9x	2.0x	2.0x	1.9x	1.9x	35%	29%	28%	28%	4.2x	6,436
Regional Average				6.9x	6.9x	6.4x	6.1x	2.0x	2.0x	1.8x	1.7x	30%	28%	29%	29%	4.3x	
Airline Average				5.6x	6.1x	5.5x	5.1x	1.3x	1.2x	1.1x	1.1x	22%	19%	20%	20%	2.3x	

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at market close on December 11, 2018



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	0.176	0.179	0.181	0.184	0.180	0.183
% change	-6.4%	0.8%	0.4%	2.0%	3.4%	5.1%	2.7%	3.0%	3.0%	2.5%	2.5%	2.7%	2.0%
RASM (Rev per unit of capacity, cents)	14.2	14.0	14.0	14.4	15.1	14.5	14.6	14.5	14.8	15.5	14.9	15.0	15.2
CASM (excl. fuel) (cents)	11.5	11.1	12.7	11.0	9.7	11.8	11.2	12.4	11.1	10.1	11.8	11.3	11.4
Total Revenues	14,677	16,252	4,071	4,333	5,415	4,157	17,976	4,367	4,669	5,812	4,448	19,296	20,126
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%	16.8%	16.0%	13.4%	16.7%	15.6%	15.7%
Aircraft Fuel - total	2606	3339	939	1099	1371	1084	4493	1113	1134	1368	1049	4665	4642
% Sales	17.8%	20.5%	23.1%	25.4%	25.3%	26.1%	25.0%	25.5%	24.3%	23.5%	23.6%	24.2%	23.1%
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%	4.5%	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%	2.4%	2.3%	2.3%	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%	4.9%	6.5%	5.5%	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%	5.3%	5.3%	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%	1.6%	1.6%
Other	3268	3526	918	932	951	956	3757	931	1007	1053	979	3970	4140
% 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	581	634	588	623	2426	2530
% 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%
Total Operating Costs	11,420	12,786	3,398	3,573	4,064	3,592	14,627	3,658	3,758	4,247	3,655	15,317	15,737
EBITDAR	2,768	2,928	397	646	1,265	456	2,764	425	794	1,477	681	3,376	3,768
% of sales	18.9%	18.0%	9.8%	14.9%	23.4%	11.0%	15.4%	9.7%	17.0%	25.4%	15.3%	17.5%	18.7%
EPS (F.D) (\$) (Exc. Special charges)	\$ 4.11	\$ 4.05	\$ (0.19)	\$ 0.41	\$ 2.03	\$ 0.21	\$ 2.46	\$ (0.12)	\$ 0.77	\$ 2.29	\$ 0.60	\$ 3.54	\$ 4.48

Source: RBC CM estimates, Company reports



Appendix 3: WJA Model

WESTJET (TSX: WJA)

FY Dec. 31 (\$MM's)	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	Q1/18	Q2/18	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	2020E
Traffic (RPMs in MM)	23,967	6,393	6,260	6,922	6,329	25,904	6,810	6,645	7,517	6,645	27,617	7,254	7,078	8,005	7,077	29,414	31,326
% change	11.3%	6.8%	8.9%	7.9%	8.8%	8.1%	6.5%	6.1%	8.6%	5.0%	6.6%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Capacity (ASMs in MM)	29,299	7,699	7,564	8,076	7,659	30,998	8,029	7,922	8,880	8,080	32,911	8,627	8,516	9,546	8,686	35,375	37,852
% change	8.9%	5.5%	6.3%	5.8%	5.6%	5.8%	4.3%	4.7%	10.0%	5.5%	6.2%	7.4%	7.5%	7.5%	7.5%	7.5%	7.0%
Load Factor in (%)	81.8%	83.0%	82.8%	85.7%	82.6%	83.6%	84.8%	83.9%	84.6%	82.2%	83.9%	84.1%	83.1%	83.9%	81.5%	83.1%	82.8%
change (%pts)	1.8%	0.9%	2.0%	1.7%	2.4%	1.8%	1.8%	1.1%	-1.1%	-0.4%	0.3%	-0.7%	-0.8%	-0.8%	-0.8%	-0.8%	-0.4%
Yield (cents per RPM)	17.20	17.44	16.91	17.56	17.66	17.39	17.50	16.36	16.78	17.83	17.11	17.85	16.69	17.12	18.19	17.45	17.72
% change	-8.1%	1.3%	2.4%	0.2%	0.9%	1.1%	0.3%	-3.2%	-4.4%	1.0%	-1.6%	2.0%	2.0%	2.0%	2.0%	2.0%	1.5%
RASM (Revenue per unit of capacity, cents)	14.1	14.5	14.0	15.0	14.6	14.5	14.8	13.7	14.2	14.7	14.4	15.0	13.9	14.4	14.8	14.5	14.7
CASM (excl. fuel) (cents)	10.0	10.4	10.0	9.6	10.3	10.1	10.6	10.3	9.5	10.4	10.2	10.8	10.3	9.7	10.6	10.3	10.5
Total Revenues	4,122.9	1,114.7	1,058.3	1,214.6	1,117.4	4,505.0	1,191.7	1,087.6	1,260.9	1,185.2	4,725.4	1,294.8	1,181.4	1,370.0	1,287.4	5,133.7	5,549.4
% change	2.3%	8.1%	11.5%	8.0%	9.8%	9.3%	6.9%	2.8%	3.8%	6.1%	4.9%	8.6%	8.6%	8.7%	8.6%	8.6%	8.1%
Airport Operations	581.9	168.9	154.5	127.1	158.7	609.3	172.9	161.8	139.8	167.5	642.0	185.8	167.3	144.5	180.0	677.7	725.1
% change	4%	6%	6%	6%	2%	5%	2%	5%	10%	5%	5%	7%	3%	3%	8%	6%	7%
Aircraft Fuel	765.9	235.5	224.9	238.0	251.6	950.0	281.2	302.3	343.3	315.9	1242.6	325.9	306.8	336.4	311.8	1280.9	1347.2
% change	-6%	42%	23%	15%	20%	24%	19%	34%	44%	26%	31%	16%	2%	-2%	-1%	3%	5%
Maintenance	231.5	62.0	56.7	65.7	58.2	242.6	63.4	59.4	72.3	61.4	256.5	68.2	61.4	74.7	66.0	270.3	289.2
% change	1%	6%	6%	6%	2%	5%	2%	5%	10%	5%	6%	7%	3%	3%	8%	5%	7%
Sales & Distribution	442.7	114.4	109.6	127.1	112.6	463.9	117.1	114.8	139.8	118.8	490.6	125.9	118.7	144.5	127.8	516.9	553.1
% change	16%	6%	6%	6%	2%	5%	2%	5%	10%	5%	6%	7%	3%	3%	7%	5%	7%
Marketing, General & Administrative	243.2	64.3	59.8	69.3	61.4	254.9	65.8	62.6	76.3	64.8	269.5	70.7	64.8	78.8	69.7	284.0	303.9
% change	5%	6%	6%	6%	2%	5%	2%	5%	10%	5%	6%	7%	3%	3%	8%	5%	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	0.0
% change	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Flight Operations	567.9	150.4	139.5	161.8	143.4	595.1	154.0	146.1	177.9	151.3	629.3	165.4	151.1	184.0	162.6	663.1	709.5
% change	14%	6%	6%	6%	2%	5%	2%	5%	10%	5%	6%	7%	3%	3%	8%	5%	7%
In-Flight	232.1	62.1	56.8	65.9	58.4	243.2	63.6	59.5	72.4	61.6	257.1	68.3	61.5	74.9	66.2	270.9	289.9
% change	12%	6%	6%	6%	2%	5%	2%	5%	10%	5%	6%	7%	3%	3%	8%	5%	7%
Employee Profit Sharing	59.3	7.0	7.8	27.6	4.4	46.8	6.4	-3.3	8.3	3.6	15.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDAR (after profit sharing)	969.0	220.8	218.3	339.0	224.5	1,002.6	200.9	117.9	215.4	179.1	713.3	190.3	139.3	265.7	215.9	811.1	895.3
% of sales	23.5%	19.8%	20.6%	27.9%	20.1%	22.3%	16.9%	10.8%	17.1%	15.1%	15.1%	14.7%	11.8%	19.4%	16.8%	15.8%	16.1%
EPS F.D.	2.45	0.40	0.41	1.15	0.41	2.38	0.32	(0.18)	0.40	0.10	0.64	0.14	(0.10)	0.60	0.27	0.91	1.15

Source: Company Reports; RBC Capital Markets Estimates



Companies mentioned

Air Canada (TSX: AC CN; C\$26.70; Outperform; Speculative Risk)

WestJet Airlines Ltd. (TSX: WJA CN; C\$18.36; Sector Perform)

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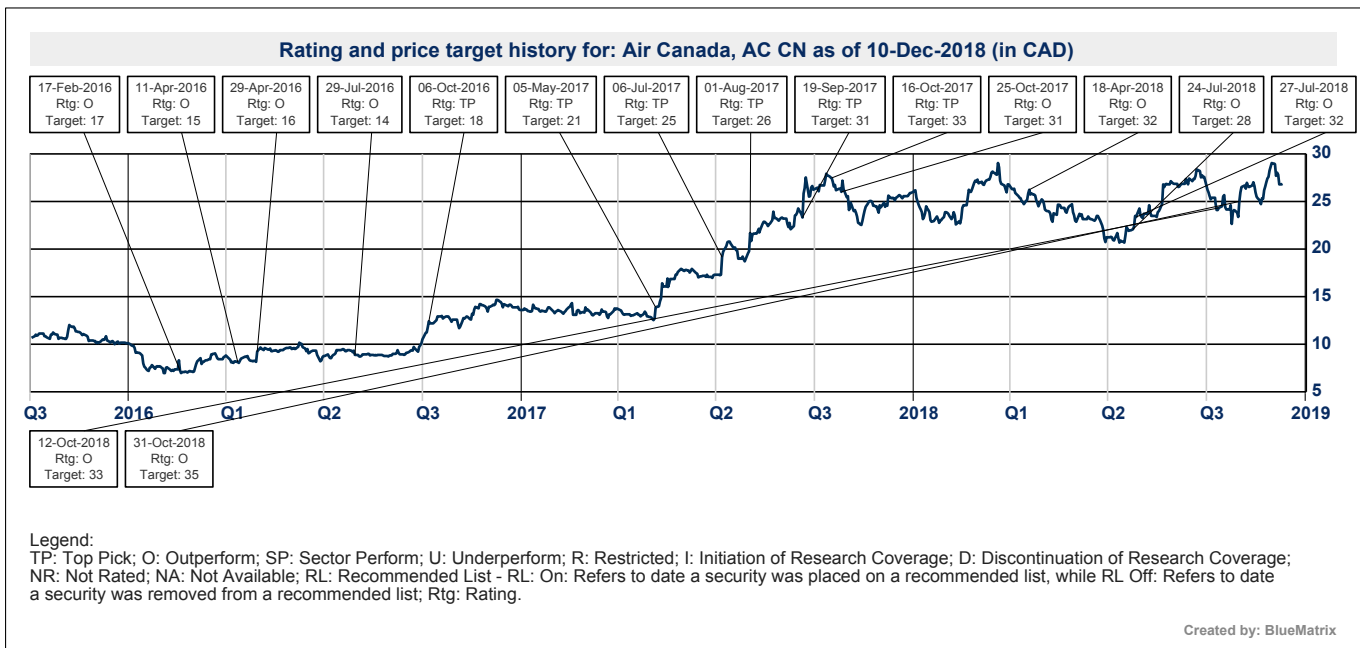
Risk Rating

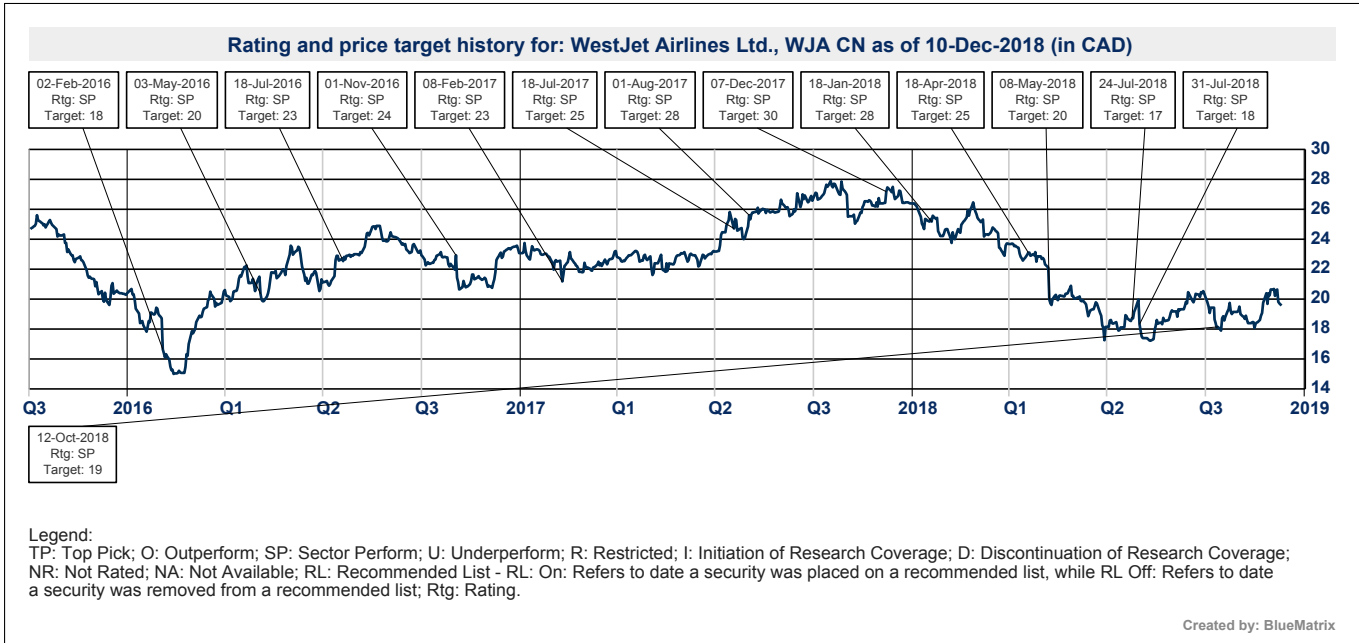
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Air Canada

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Risks to rating and price target

Risks to our price target and rating include but are not limited to very high operating leverage given a fixed-cost structure, above-average sensitivity to the economy, exposure to volatile fuel prices and the risk of terrorism and epidemics. This is a very competitive industry in which WestJet is capturing domestic market share. Air Canada is only partially hedged to changes in jet fuel prices.

WestJet Airlines Ltd.

Valuation



Our \$19 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 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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