



March 12, 2018

RBC Flight Deck

Fare Survey shows price divergence in February

RBC Fare Survey results still positive for AC. Our proprietary Fare Survey tracks price changes on selected routes to gauge the direction and magnitude of fare prices in the month. Based on this data, Air Canada fares show continued strength, increasing 39 basis points in February, and holding onto gains after an impressive six-month run. AC fares are 9.4% higher than last year, the highest level since we started tracking the data in 2012, and shows that the company is having no problems passing on higher fuel prices.

Sudden weakness in WJA Fares. According to data from the RBC Fare Survey, fares at WJA weakened 8% in February. The sharp drop is mostly coming from the domestic segment, for tickets with travel dates of three months or more. In other words, ticket prices fell the most for fares that will be competing directly with Swoop, which starts flying at the end of June. There was also some moderate weakness in the Vacation segment.

Despite fare weakness, WJA traffic remains robust. WestJet reported strong traffic numbers in February. Traffic increased a healthy 6.1%, in excess of capacity growth of 4.6%, leading to a record system load factor of 86.4% (up 120 points Y/Y). This suggests the price drop for WJA fares may be more about competitive positioning rather than lack of demand.

Overall traffic growth remains healthy. On average, the peer group reported 4.6% traffic growth in February, above the average capacity growth of 3.1%, leading to load factor growth of 1.5%. North American carriers have been managing capacity well, but we are starting to see capacity rise, and expect this to continue in 2018.

In this edition...

- **RBC Fare Tracker (p. 2):** Seeing positive fare growth for AC, not the case for WJA.
- **The Load Factor (p. 3):** Traffic demand remains robust.



INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTSX	(6.8)	(6.2)	(3.3)	▼
S&P 500	(5.1)	(1.1)	14.1	▼
AMEX Airline	(8.7)	(3.3)	1.9	▼
AMEX Aerospace	(0.0)	7.5	41.6	▼

COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	(6.9)	(1.1)	6.7	▼
Jet Fuel	(10.6)	(11.8)	10.8	▼
CAD/USD	1.3	0.4	(3.5)	Δ

AEROSPACE				
	1-M (%)	YTD (%)	1-YR (%)	TREND
Bombardier	3.3	4.3	23.0	Δ
Boeing	1.2	15.3	104.6	Δ
EADS	(8.5)	(0.3)	28.5	▼
Embraer	4.4	10.6	13.4	Δ
General Dynamics	(0.2)	3.3	14.0	▼
Textron	(5.3)	0.6	16.4	▼
United Technologies	(7.4)	(0.9)	13.8	▼

N.A. MAINLINE				
	1-M (%)	YTD (%)	1-YR (%)	TREND
Air Canada	(5.6)	(10.7)	70.1	▼
AMR	(15.8)	(5.4)	6.0	▼
Delta	(14.5)	(8.6)	3.9	▼
United	(18.3)	(5.0)	(11.8)	▼

N.A. REGIONAL				
	1-M (%)	YTD (%)	1-YR (%)	TREND
Alaska	(10.6)	(10.5)	(32.4)	▼
Alliant	(2.5)	4.3	(5.8)	▼
Chorus Aviation	0.6	(5.7)	26.9	Δ
JetBlue	(13.7)	(11.4)	(0.0)	▼
SkyWest	(0.9)	2.2	49.7	▼
Southwest	(13.8)	(14.0)	2.9	▼
WestJet	(1.9)	(5.7)	12.0	▼

INTL AIRLINES				
	1-M (%)	YTD (%)	1-YR (%)	TREND
Lufthansa	(13.3)	(14.2)	109.2	▼
Air France/KLM	(23.1)	(24.5)	102.1	▼
BA/Iberia	(9.8)	(7.3)	23.9	▼
Cathay Pacific	(6.6)	(6.6)	(58.7)	▼
Air China	(0.7)	14.3	87.5	▼
China Eastern	(8.1)	6.2	43.3	▼
China Southern	0.4	12.4	92.2	Δ
Singapore Airlines	(3.9)	(0.4)	7.7	▼
Qantas	2.0	1.8	50.9	Δ

Source: Bloomberg



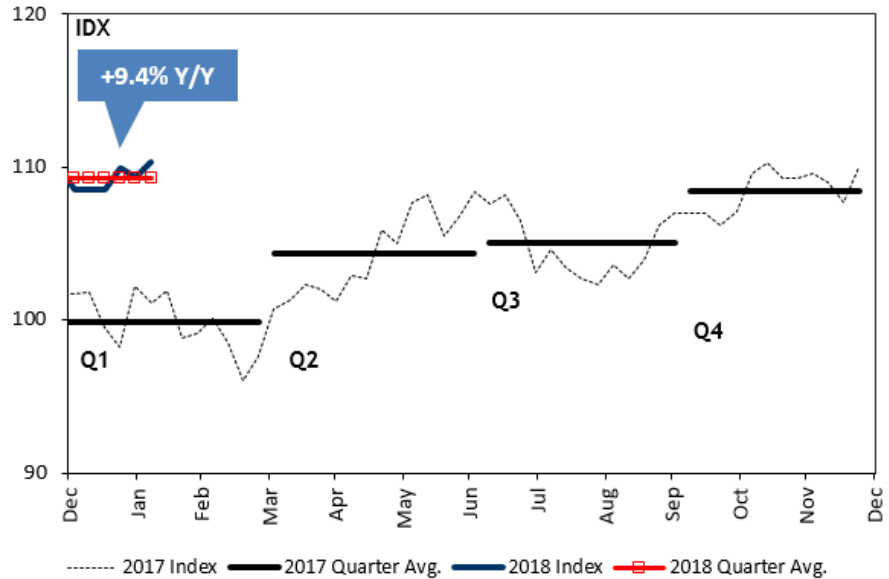
RBC Fare Survey

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, fares at Air Canada increased in February month-over-month by 39 basis points. AC has therefore been able to hold onto gains after an impressive six-month increase in fare prices, and accomplished this during a seasonally weak quarter. Looking at segments, fares within international and U.S. transborder were marginally higher, while the Vacation and domestic segments remained flat.

The RBC Fare survey is tracking 9.4% higher Y/Y during February, and +6.9% after adjusting 250 bps to account for stage-length changes.

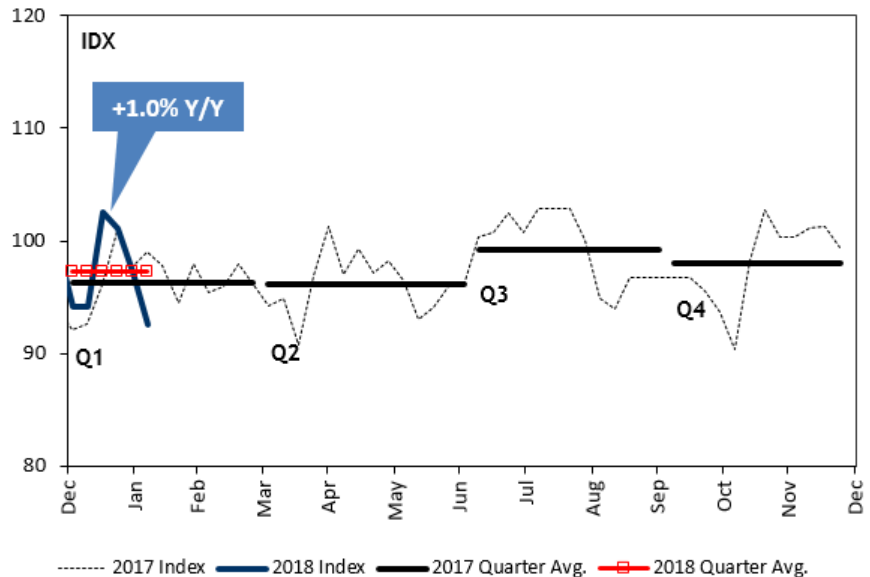


Sources: RBC Capital Markets estimates, Company websites

WestJet

According to the RBC fare tracker, fares at WestJet weakened by more than 8% in February. The sharp drop seems to be isolated to tickets sold in the domestic segment for travel in three months or more. In other words, ticket prices fell the most for fares that will be competing directly with Swoop, which begins flying the end of June. The Vacation segment also posted some weakness, though not nearly the magnitude of domestic fares, but Transborder fares rose steadily during the month.

As WJA reported a rise in monthly traffic growth for February (next section), we attribute the fare weakness to competitive positioning.



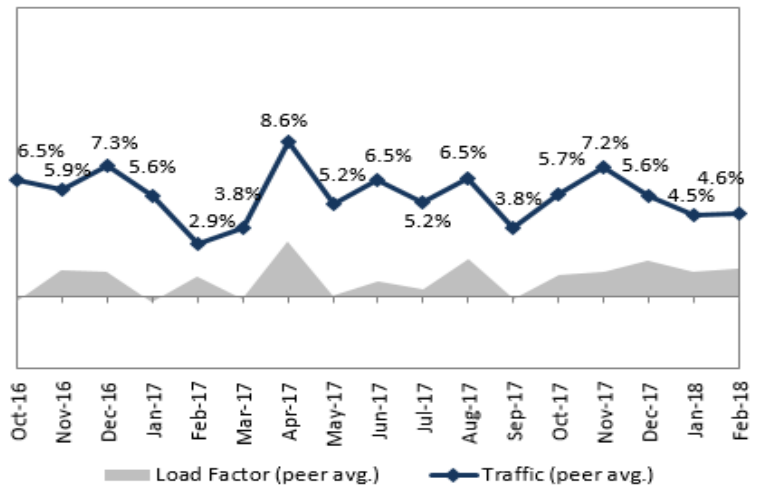
Sources: RBC Capital Markets estimates, Company websites



The Load Factor

Industry trends

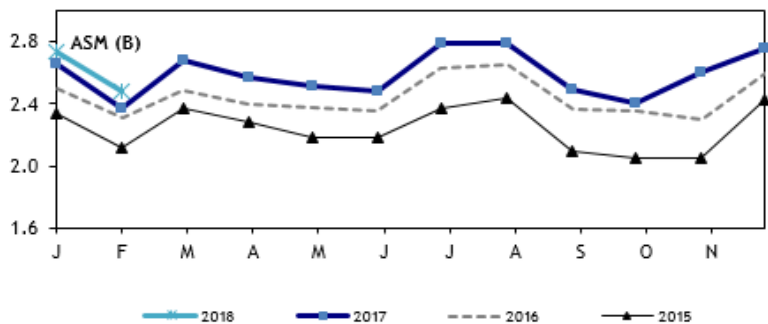
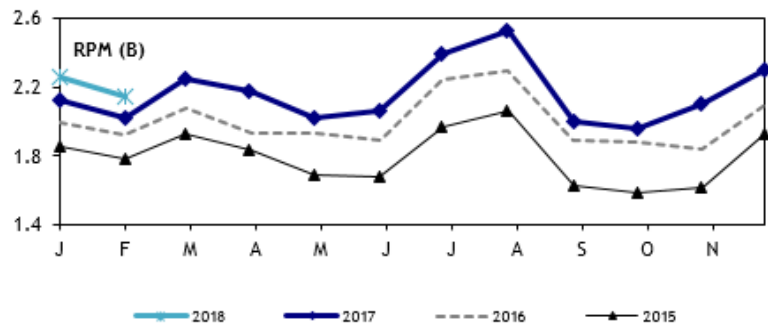
On average, the peer group reported 4.6% traffic growth in January, above the average capacity growth of 3.1%, leading to load factor growth of 1.5%. North American carriers managed capacity growth well throughout 2017, but we feel capacity will rise in the year to come.



Sources: Company websites, RBC Capital Markets estimates

WestJet

WestJet reported solid traffic growth in February, up 6.1%, which is in-line with our estimate of 6%. This came on the back of capacity growth of 4.6% (vs. our 5.0% estimate), which led to a system load factor of 86.4% (up 120 points Y/Y).



	February			YTD		
	2018	2017	Δ	2018	2017	Δ
RPMs (B)	2.142	2.019	+6.1%	4.401	4.141	+6.3%
ASMs (B)	2.480	2.370	+4.6%	5.213	5.023	+3.8%
Load Factor	86.4%	85.2%	1.2 pts	84.4%	82.4%	2.0 pts

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

Source: RBC Capital Markets estimates, Company websites



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

- **JetBlue reportedly meets with Bombardier as talks about replacing jets pick up.** JetBlue Airways met with Bombardier Inc. and had plans to meet with Brazil's Embraer SA this month, according to an internal email reviewed by Reuters. Low-cost carrier JetBlue has previously said it is weighing whether to replace its fleet of about 60, 100-seater E-190 jets, in a campaign pitting Bombardier's C Series against its Brazilian rival's latest model, the E190-E2. Embraer is determined to keep JetBlue as a key customer, while Bombardier wants to grow sales in the United States after a trade agency ruled the Canadian plane-and-train-maker could sell its 110-to-130 seat C Series to American carriers duty-free following a dispute with Boeing Co, according to the article. (The Globe and Mail, February 26, 2018).
- **Bombardier's trade court win came down to seat count.** The US International Trade Commission's ruling in favour of Bombardier did not hinge on some obscure legal technicality in the end. Rather, the decision came down to a straightforward conclusion: that the smallest version of Boeing's 737 family does not directly compete with the C Series. Therefore, subsidies and price dumping aside, Boeing suffered no harm by Bombardier's 2016 sale of 75 CS100s to Delta Air Lines, according to the ITC's full investigative report released on 14 February. (Flight Global, February 15, 2018)

Regional Jets

- **Regional jet demand to peak in 2025 as current fleets are retired.** The second day of the 17th annual Pacific Northwest Aerospace Alliance commercial aerospace conference agenda gave special attention to the regional jet market. The market for regional jets (70-to-100-passengers) is poised for growth, the experts say, and in the forecast period 2017 to 2032, the U.S. will account for 70% of the world's regional jets in a market valued at \$270 billion. Economics of short-haul routes and traveler preferences are likely to reinforce demand for the smaller jets, which have largely replaced turboprops on U.S. routes. (Aerospace Manufacturing and Design, February 15, 2018).

Business Jets

- **Singapore Air Show: Bombardier shows off Global 6000 cabin.** Bombardier is showing its Global 6000 cabin in Asia for the first time, as the Canadian manufacturer continues to notch up orders in the region for its revamped long-range, large cabin business jet. Globals make up a higher proportion of Bombardier's overall business jet sales in Asia than in other regions, with many high-net-worth individuals needing the space and range of the larger aircraft family to travel to Europe and North America. (Flight Global, February 6, 2018)
- **Fifth Global 7000 joins flight test program.** Bombardier's fifth Global 7000 (FTV5) completed its first flight recently, rounding out the full complement of flight-test vehicles for the program. The initial flight, from Bombardier's Toronto facility, lasted 4.6 hours. The aircraft will complete the type-certification campaign, paving the way for entry-into-service later this year, Bombardier said. Once certified, the four-zone, \$75 million Global 7000 will become Bombardier's flagship business jet, flying 7,400 nautical miles and achieving speeds of up to Mach 0.925. (BJT Online, February 2, 2018).



CAE

Civil

- **L-3 launches new European airline academy:** L-3 CTS announced that it has launched a new European Airline Academy based in Ponte de Sor Airport in Portugal. The academy has capacity to provide training for up to 500 cadets each year. This academy was established following L3's acquisition of the G Air Training Centre in Oct 2017. The company estimates that over 1,000 cadet pilots started training with L3 CTS in 2017, and the new facility should add meaningfully to L3's global footprint. (Aviation Pros).
- **CAE expands pilot training agreement with Korea's T'way Air:** CAE announced that it has signed an exclusive 5-year pilot training agreement with the low-cost carrier T'Way Air in Korea, supporting the airline's Boeing 737NG pilot training needs. CAE instructors will be training the pilots at CAE Korea, with the program scheduled to start in the second half of 2018. CAE has previously provided pilot training services to T'Way Air, and this contract should add to CAE's existing footprint in APAC. Contract value was not disclosed. (CAE)
- **Market analysis shows ~4.8% CAGR in Simulators market through 2022E:** Global forecasts estimate that the market for simulators is estimated to be ~\$16.6bn in 2017, and is projected to reach ~\$21bn by 2022 (4.8% CAGR). Demand in the commercial applications continues to lead growth. Research observes increased adoption of integrated training services in both commercial and military applications. (Sensor Magazine)

Military

- **CAE to support the foreign military sale of helicopter training system to Brazilian Army:** CAE has been contracted by the US Navy to support the foreign military sale (FMS) of S-70B Seahawk helicopter training systems to the Brazilian Navy. Under the contract, CAE will design and manufacture two training services for the S-70B operational flight training and an A-70B weapons tactics trainer. (CAE)
- **FlightSafety expands training for new Sikorsky S-70A courses at West Palm Beach, and installs service of S-76B simulator in Lafayette:** FlightSafety announced that it now offers a new series of Sikorsky S-70A courses at its West Palm Beach Learning Center, designed to provide FAA type certification and recurrent training for the S-70A Black Hawk. In addition, they also installed a new simulator for the Sikorsky S-76B at its Learning Center in Lafayette. Flightsafety has served as the factory authorized training provider for Sikorsky since 1983, offering training for Sikorsky helicopters in the US, UK and Singapore. (FlightSafety)



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

FY Dec 31	2016	Q1/17	Q2/17	Q3/17E	Q4/17	2017A	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	26,472	19,396	85,137	20,083	22,393	27,928	20,366	90,770	20,585	23,065	28,626	20,977	93,253	95,700
% change	13.2%	14.0%	13.6%	8.8%	9.9%	11.3%	9.5%	7.0%	5.5%	5.0%	6.6%	2.5%	3.0%	2.5%	3.0%	2.7%	2.6%
Capacity / ASM (MMs)	92,726	22,894	25,357	31,050	24,191	103,492	25,069	27,259	32,913	25,401	110,641	25,821	28,077	33,900	26,163	113,960	117,379
% change	14.7%	15.4%	13.5%	9.1%	9.5%	11.6%	9.5%	7.5%	6.0%	5.0%	6.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Load Factor (%)	82.5%	80.1%	82.5%	85.3%	80.2%	82.3%	80.1%	82.1%	84.9%	80.2%	82.0%	79.7%	82.1%	84.4%	80.2%	81.8%	81.5%
change (% pts)	-1.0%	-1.0%	0.1%	-0.2%	0.3%	-0.2%	0.0%	-0.4%	-0.4%	0.0%	-0.2%	-0.4%	0.0%	-0.4%	0.0%	-0.2%	-0.3%
Yield (\$)	0.169	0.165	0.165	0.166	0.171	0.167	0.169	0.170	0.171	0.178	0.172	0.172	0.173	0.174	0.181	0.175	0.177
% change	-6.4%	-5.1%	-1.4%	0.4%	1.4%	-1.3%	2.4%	3.0%	3.0%	4.0%	3.1%	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	14.2	13.7	14.0	13.6	14.0	14.5	14.3	14.1	13.7	14.2	14.7	14.5	14.3	14.4
CASM (excl. fuel) (cents)	11.5	12.9	11.2	9.5	11.7	11.1	12.9	10.9	9.5	11.4	11.1	12.7	11.0	9.7	11.4	11.1	11.2
Total Revenues	14,677	3,642	3,910	4,880	3,820	16,252	3,961	4,216	5,191	4,075	17,443	4,110	4,397	5,392	4,249	18,149	18,864
Wages, salaries and benefits	2510	644	663	690	674	2671	703	717	718	715	2853	735	750	751	748	2983	3119
% Sales	17.1%	17.7%	17.0%	14.1%	17.6%	16.4%	17.7%	17.0%	13.8%	17.5%	16.4%	17.9%	17.0%	13.9%	17.6%	16.4%	16.5%
Aircraft Fuel - total	2606	754	797	941	847	3339	924	976	1150	887	3936	921	973	1156	899	3949	3907
% Sales	17.8%	20.7%	20.4%	19.3%	22.2%	20.5%	23.3%	23.1%	22.2%	21.8%	22.6%	22.4%	22.1%	21.4%	21.2%	21.8%	20.7%
Sales and distribution costs	703	205	199	204	169	777	219	208	210	172	810	226	215	216	178	834	859
% Sales	4.8%	5.6%	5.1%	4.2%	4.4%	4.8%	5.5%	4.9%	4.0%	4.2%	4.6%	5.5%	4.9%	4.0%	4.2%	4.6%	4.6%
Food, beverages, supplies	349	85	97	112	89	383	93	104	119	93	410	96	107	122	96	422	434
% Sales	2.4%	2.3%	2.5%	2.3%	2.3%	2.4%	2.3%	2.5%	2.3%	2.3%	2.3%	2.3%	2.4%	2.3%	2.3%	2.3%	2.3%
Aircraft maintenance	883	228	226	241	243	938	330	233	248	267	1078	340	240	256	275	1110	1144
% Sales	6.0%	6.3%	5.8%	4.9%	6.4%	5.8%	8.3%	5.5%	4.8%	6.6%	6.2%	8.3%	5.5%	4.7%	6.5%	6.1%	6.1%
Airport and navigation fees	859	210	230	264	201	905	225	242	273	206	946	232	249	281	212	974	1004
% Sales	5.9%	5.8%	5.9%	5.4%	5.3%	5.6%	5.7%	5.7%	5.3%	5.1%	5.4%	5.6%	5.7%	5.2%	5.0%	5.4%	5.3%
Communications and information technol	242	71	58	63	62	254	70	54	57	57	239	72	56	59	59	246	242
% Sales	1.6%	1.9%	1.5%	1.3%	1.6%	1.6%	1.8%	1.3%	1.1%	1.4%	1.4%	1.8%	1.3%	1.1%	1.4%	1.4%	1.3%
Other	3268	847	867	904	908	3526	923	893	912	880	3608	896	932	996	867	3690	3835
% Sales	22.3%	23.3%	22.2%	18.5%	23.8%	21.7%	23.3%	21.2%	17.6%	21.6%	20.7%	21.8%	21.2%	18.5%	20.4%	20.3%	20.3%
Regional airline expense (ex fuel and DA)	2027	521	535	535	546	2137	547	556	543	562	2208	567	580	564	544	2255	2344
% Sales	13.8%	14.3%	13.7%	11.0%	14.3%	13.1%	13.8%	13.2%	10.5%	13.8%	12.7%	13.8%	13.2%	10.5%	12.8%	12.4%	12.4%
Total Operating Costs	11,420	3,044	3,137	3,419	3,193	12,793	3,488	3,427	3,686	3,278	13,879	3,518	3,521	3,836	3,333	14,208	14,543
EBITDAR	2,768	342	670	1,388	521	2,921	210	683	1,429	688	3,009	320	767	1,479	804	3,370	3,733
% of sales	18.9%	9.4%	17.1%	28.4%	13.6%	18.0%	5.3%	16.2%	27.5%	16.9%	17.3%	7.8%	17.4%	27.4%	18.9%	18.6%	19.8%
EPS (F.D) (\$ (Exc. Special charges)	\$ 4.11	\$ (0.32)	\$ 0.79	\$ 0.57	\$ 0.28	\$ 1.31	\$ (0.88)	\$ 0.73	\$ 3.07	\$ 0.83	\$ 3.75	\$ (0.52)	\$ 0.99	\$ 3.20	\$ 1.22	\$ 4.89	\$ 6.12

Source: RBC CM estimates, Company reports



WESTJET (TSX: WJA)

FY Dec. 31 (\$MM's)	2016	Q1/17	Q2/17	Q3/17	Q4/17	2017	Q1/18E	Q2/18E	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E
Traffic (RPMs in MM)	23,967	6,393	6,260	6,922	6,329	25,904	6,777	6,666	7,441	6,835	27,719	7,285	7,166	7,999	7,348	29,798
% change	11.3%	6.8%	8.9%	7.9%	8.8%	8.1%	6.0%	6.5%	7.5%	8.0%	7.0%	7.5%	7.5%	7.5%	7.5%	7.5%
Capacity (ASMs in MM)	29,299	7,699	7,564	8,076	7,659	30,998	8,057	8,093	8,722	8,348	33,221	8,702	8,741	9,420	9,016	35,879
% change	8.9%	5.5%	6.3%	5.8%	5.6%	5.8%	4.7%	7.0%	8.0%	9.0%	7.2%	8.0%	8.0%	8.0%	8.0%	8.0%
Load Factor in (%)	81.8%	83.0%	82.8%	85.7%	82.6%	83.6%	84.1%	82.4%	85.3%	81.9%	83.4%	83.7%	82.0%	84.9%	81.5%	83.1%
change (%pts)	1.8%	0.9%	2.0%	1.7%	2.4%	1.8%	1.1%	-0.4%	-0.4%	-0.8%	-0.1%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%
Yield (cents per RPM)	17.20	17.43	16.85	17.56	17.66	17.38	18.13	17.36	17.91	18.01	17.85	18.31	17.53	18.09	18.19	18.03
% change	-8.1%	1.2%	2.1%	0.2%	0.9%	1.0%	4.0%	3.0%	2.0%	2.0%	2.7%	1.0%	1.0%	1.0%	1.0%	1.0%
RASM (Revenue per unit of capacity, cents)	14.1	14.5	13.9	15.1	14.6	14.5	15.2	14.3	15.3	14.7	14.9	15.3	14.4	15.4	14.8	15.0
CASM (excl. fuel) (cents)	10.0	10.4	9.9	9.6	10.3	10.0	10.7	10.2	10.0	10.3	10.3	10.9	10.3	10.2	10.4	10.4
Total Revenues	4,122.9	1,114.3	1,055.0	1,215.6	1,117.4	4,502.3	1,228.4	1,156.9	1,332.8	1,231.1	4,949.2	1,333.7	1,256.1	1,447.1	1,336.7	5,373.6
% change	2.3%	8.0%	11.1%	8.1%	9.8%	9.2%	10.2%	9.7%	9.6%	10.2%	9.9%	8.6%	8.6%	8.6%	8.6%	8.6%
Airport Operations	581.9	168.9	154.5	127.1	158.7	609.3	173.5	159.0	132.1	173.0	637.6	187.4	171.7	142.6	186.9	688.6
% change	4%	6%	6%	6%	2%	5%	3%	3%	4%	9%	5%	8%	8%	8%	8%	8%
Aircraft Fuel	765.9	235.5	224.9	238.0	251.6	950.0	279.1	272.1	288.3	265.5	1105.0	290.8	286.1	305.3	283.5	1165.7
% change	-6%	42%	23%	15%	20%	24%	18%	21%	21%	5%	16%	4%	5%	6%	7%	5%
Maintenance	231.5	62.0	56.7	65.7	58.2	242.6	63.7	58.3	68.3	63.5	253.7	68.8	63.0	73.7	68.6	274.0
% change	1%	6%	6%	6%	2%	5%	3%	3%	4%	9%	5%	8%	8%	8%	8%	8%
Sales & Distribution	442.7	114.4	109.6	127.1	112.6	463.9	117.6	112.8	132.1	122.8	485.2	127.0	121.9	142.6	132.6	524.1
% change	16%	6%	6%	6%	2%	5%	3%	3%	4%	9%	5%	8%	8%	8%	8%	8%
Marketing, General & Administrative	243.2	64.3	59.8	69.3	61.4	254.9	66.1	61.5	72.0	67.0	266.6	71.3	66.5	77.8	72.3	287.9
% change	5%	6%	6%	6%	2%	5%	3%	3%	4%	9%	5%	8%	8%	8%	8%	8%
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	567.9	150.4	139.5	161.8	143.4	595.1	154.5	143.6	168.1	156.3	622.5	166.9	155.1	181.5	168.8	672.3
% change	14%	6%	6%	6%	2%	5%	3%	3%	4%	9%	5%	8%	8%	8%	8%	8%
In-Flight	232.1	62.1	56.8	65.9	58.4	243.2	63.8	58.5	68.4	63.6	254.3	68.9	63.1	73.9	68.7	274.7
% change	12%	6%	6%	6%	2%	5%	3%	3%	4%	9%	5%	8%	8%	8%	8%	8%
Employee Profit Sharing	59.3	7.0	7.8	27.6	4.4	46.8	18.4	17.4	20.0	18.5	74.2	20.0	18.8	21.7	20.0	80.6
% change	-41%	-69%	-751%	-13%	-32%	-21%	162%	124%	-28%	320%	59%	9%	9%	9%	9%	9%
EBITDAR (after profit sharing)	969.0	223.0	217.9	342.4	224.5	1,007.9	236.6	206.3	328.6	255.9	1,027.4	264.7	228.4	358.9	276.9	1,128.8
% of sales	23.5%	20.0%	20.7%	28.2%	20.1%	22.4%	19.3%	17.8%	24.7%	20.8%	20.8%	19.8%	18.2%	24.8%	20.7%	21.0%
EPS F.D.	2.45	0.41	0.41	1.18	0.41	2.41	0.43	0.32	0.99	0.57	2.32	0.51	0.37	1.07	0.61	2.56

Source: Company Reports; RBC Capital Markets Estimates



Companies mentioned

Air Canada (TSX: AC CN; C\$27.16; Outperform; Speculative Risk)

WestJet Airlines Ltd. (TSX: WJA.TO; C\$24.31; Sector Perform)

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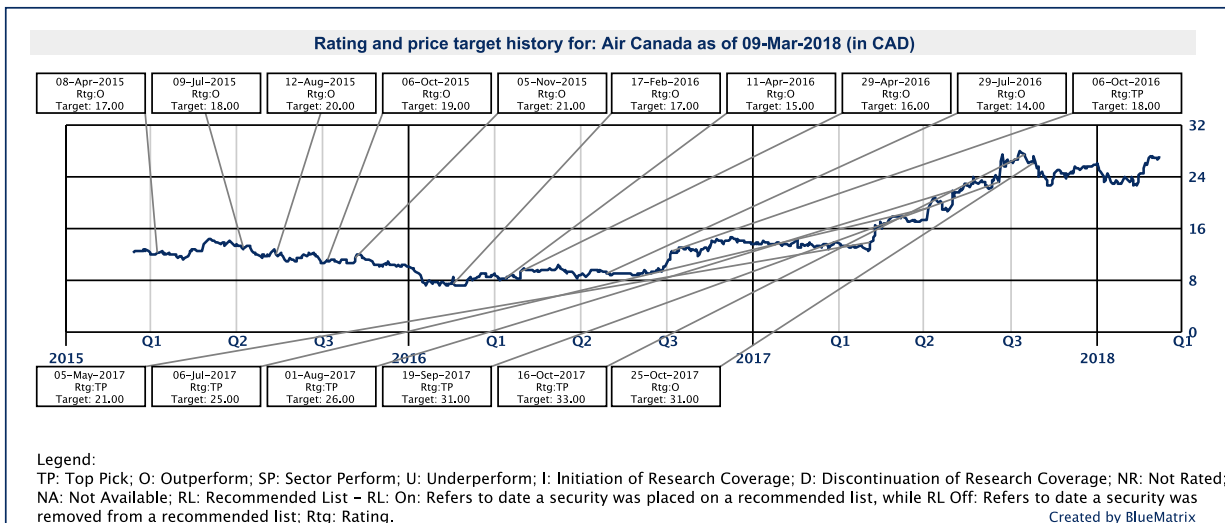


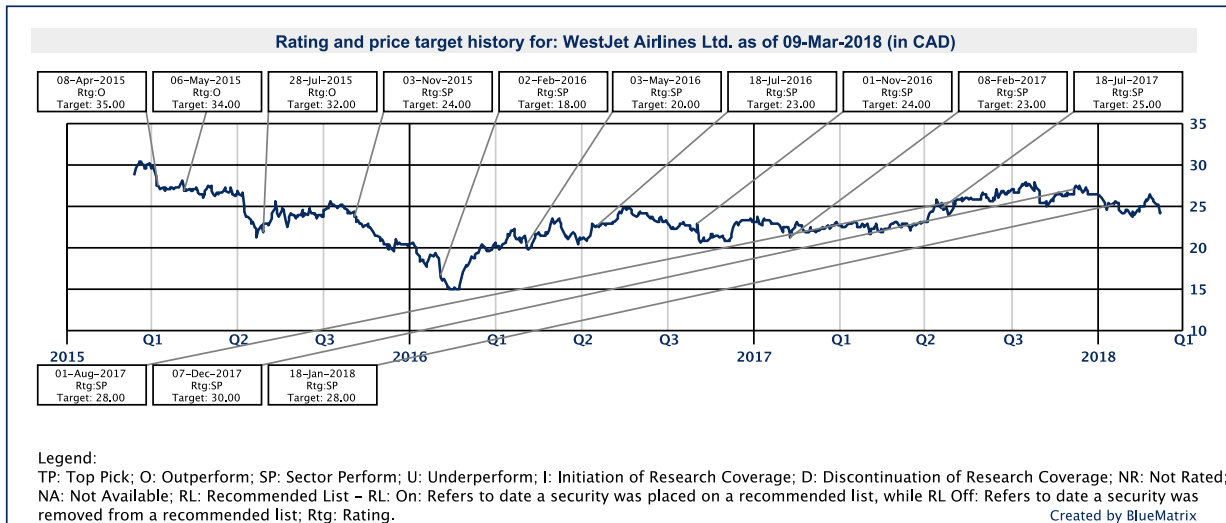
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Air Canada

Valuation

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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 \$28 price target is based on an EV/EBITDAR approach whereby we apply a 4.9x 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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