



December 13, 2017

RBC Flight Deck

Traffic numbers above expectations for WJA; yields appear strong for AC

Divergence between WestJet and Air Canada fares continues. Our Fare Tracker indicated that Air Canada has increased prices even further and fares are now tracking 6.6% higher QTD Y/Y in November, while WestJet's fares have rebounded slightly to -3.0% QTD Y/Y in November, from -3.8% Y/Y in October. When considering stage length impacts, we adjust down 250bp for Air Canada and 50bp for WestJet. After these adjustments, yields point to +4.1% for Air Canada (vs. our estimate for Q4/17 of +1.0%) and -3.5% for WestJet (vs. our estimate of +2.5% for Q4/17).

WestJet's November traffic data points to a healthy environment. WestJet reported traffic numbers this morning that showed its traffic growth came in strong at 12.1% (easily above our 6% estimate), while capacity was managed well, growing 8.9% (vs. our 6% estimate). The ~9% capacity growth was to be expected given the slow rollout in October. The most eye-catching number was the ~12% traffic growth, which is indicative of two things: (1) the market is supportive of the capacity additions that airlines have planned; (2) WestJet's ability to forecast and manage traffic. The data is in line with management commentary at WestJet's investor day that the forward booking curve is "holding up really well in every individual booking month". The matching of traffic with capacity in the past couple of months might also be an indication of the effectiveness of the revenue management techniques that were highlighted during WJA's investor day.

RBC Fare Tracker and WJA's traffic statistics both positive. Our Fare Tracker showed fares rose for both Air Canada and WestJet at a similar pace across many destinations. We saw the weakest fares in vacation destinations, which is to be expected given the seasonal drop-off. These fare numbers coupled with the traffic statistics WestJet released this morning give us confidence about the strength of the market.

In This Edition...

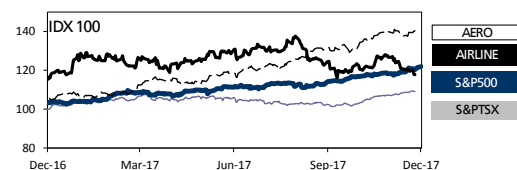
- **RBC Fare Tracker (p. 2):** Seeing positive fare growth, as per the RBC Fare Survey.
- **The Load Factor (p. 3):** Traffic demand remains robust.

RBC Dominion Securities Inc.
Walter Spracklin, CFA
 (Analyst)
 (416) 842-7877
 walter.spracklin@rbccm.com
Steve Arthur, CFA (Analyst)
 (416) 842-7844
 steve.arthur@rbccm.com

Niki Shi (Associate)
 (416) 842-5338
 niki.shi@rbccm.com



INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTSX	0.5	5.4	5.4	Δ
S&P 500	3.2	19.0	18.0	Δ
AMEX Airline	9.9	3.4	3.8	Δ
AMEX Aerospace	4.4	35.9	34.3	Δ



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	0.3	0.3	2.5	Δ
Jet Fuel	5.0	20.9	26.4	Δ
CAD/USD	1.1	(4.3)	(2.0)	Δ
AEROSPACE				
Bombardier	1.3	45.2	64.1	Δ
Boeing	11.2	86.2	84.5	Δ
EADS	4.2	38.8	44.3	Δ
Embraer	5.1	4.4	8.2	Δ
General Dynamics	(1.8)	13.6	12.9	▼
Textron	0.6	12.4	12.7	Δ
United Technologies	4.5	12.6	11.9	Δ
N.A. MAINLINE				
Air Canada	11.5	85.7	75.0	Δ
AMR	10.1	8.1	6.1	Δ
Delta	9.7	9.0	7.3	Δ
United	8.3	(13.1)	(13.5)	Δ
N.A. REGIONAL				
Alaska	11.8	(21.3)	(19.5)	Δ
Allegiant	14.7	(12.0)	(12.0)	Δ
Chorus Aviation	1.3	32.5	47.6	Δ
JetBlue	13.7	(3.7)	(0.1)	Δ
SkyWest	15.4	45.3	46.3	Δ
Southwest	18.6	27.3	28.5	Δ
WestJet	7.7	17.8	18.1	Δ
INTL AIRLINES				
Lufthansa	10.0	141.2	136.9	Δ
Air France/KLM	12.6	144.3	149.6	Δ
BA/Iberia	6.0	43.6	46.4	Δ
Cathay Pacific	(4.5)	(56.8)	(56.8)	▼
Air China	11.0	62.8	58.0	Δ
China Eastern	20.2	30.7	34.5	Δ
China Southern	19.7	77.9	69.5	Δ
Singapore Airlines	(2.2)	9.5	8.1	▼
Qantas	(11.0)	58.6	61.5	▼

Source: Bloomberg

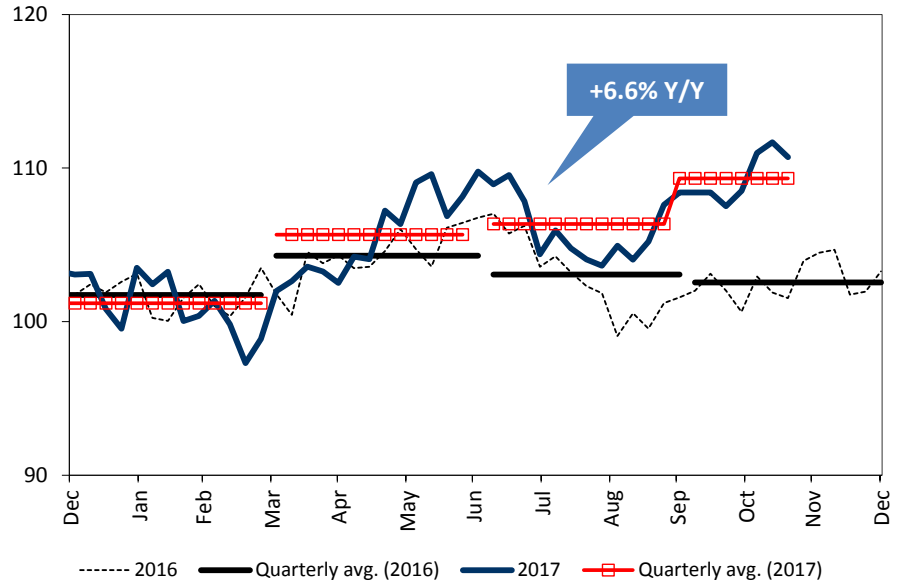


RBC Fare Survey

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

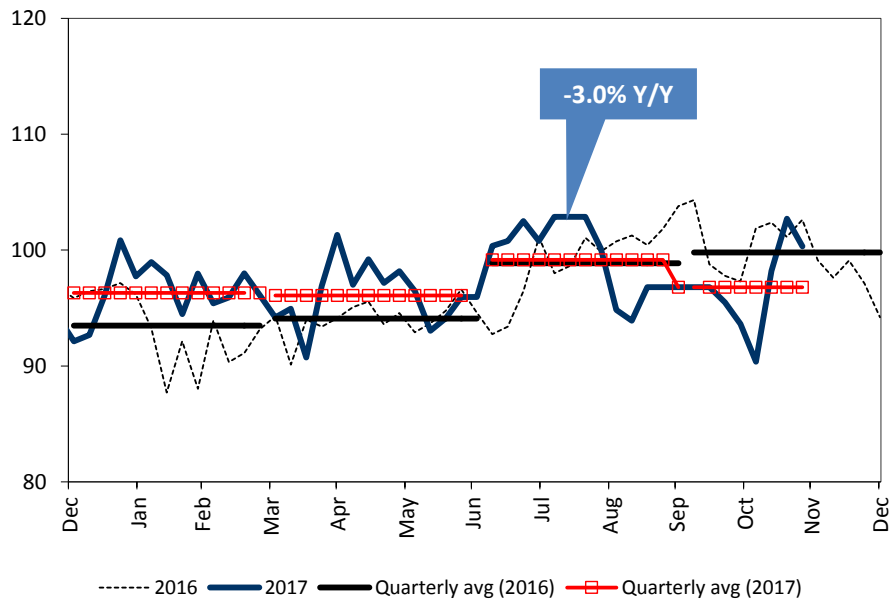
Fares at Air Canada increased in November on both a month-over-month and year-over-year basis. The domestic segment drove gains earlier in the month, but trailed off in the last weeks of November. Air Canada’s remaining sectors were up slightly for the month. The RBC Fare survey was tracking 6.6% higher Y/Y during November. When adjusting 250 bp to account for stage-length changes, our tracker points to a yield increase of +4.1%, well above our +1.0% estimate for Q4/17.



Source: RBC Capital Markets estimates, Company websites

WestJet

The RBC Fare Survey points to rebounding fares from the dip seen in the past few months, though fares are tracking below last year’s levels, which itself is an easy comp. A deeper dive into the tracker indicates vacation destinations are leading the decline, while transborder and domestic fares have held steady. This bodes well for WestJet, as it has had a strong rollout in domestic capacity. For November, the fare tracker shows prices are down 3.0% Y/Y. After adjusting down by 50 bp to account for stage length change, it implies a yield of -3.5%, which is below our +2.5% estimate.



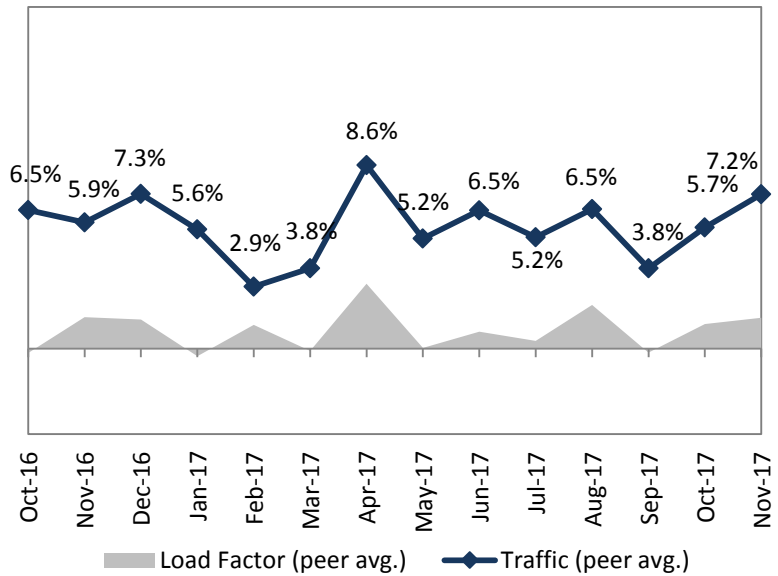
Source: RBC Capital Markets estimates, Company websites



The Load Factor

Industry trends

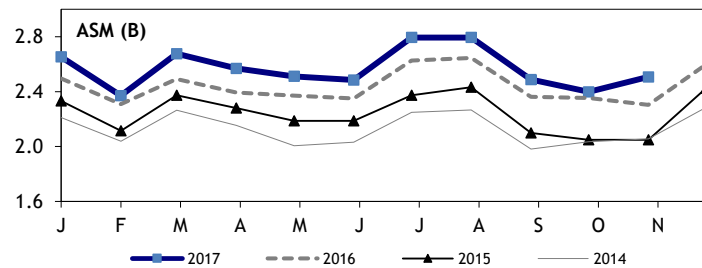
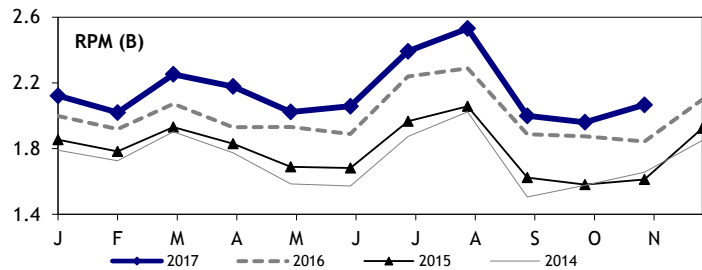
On average, the peer group reported 6.8% traffic growth in November, above the average capacity growth of 4.8%, leading to load factor growth of 1.4%. North American carriers have managed capacity growth well in the year. It is all but certain that load factors will be higher Y/Y in 2017, as December's load factor would have to decline ~9% to push the 2017 numbers out of positive territory.



Source: Company websites, RBC Capital Markets estimates

WestJet

WestJet reported strong traffic growth in November, up 12.1%, which is well above our estimate of 6%. This came on the back of capacity growth of 8.9% (vs. our 6% estimate), which led to a system load factor of 82.4% (up 240 points Y/Y).



	November			YTD		
	2017	2016	Δ	2017	2016	Δ
RPMs (B)	2.066	1.843	+12.1%	23.601	21.869	+7.9%
ASMs (B)	2.507	2.303	+8.9%	28.244	26.700	+5.8%
Load Factor	82.4%	80.0%	2.4 pts	83.6%	81.9%	1.7 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

- **Bombardier gets LOI for purchase worth up to \$2.2 billion at list prices.** EgyptAir signed a letter of intent for 12 CS300s with an option for an additional 12 more. The list price of the aircraft puts the total deal at a value of \$2.2 billion. The CS300 will be deployed in regional routes in Arab countries and Europe. Of note, EgyptAir CEO Musallam Safwat commented the Airbus stake in the C-Series did not influence the airline's purchase decision. (Flight Global, Nov 14, 2017)
- **German competition watchdog clears Airbus-Bombardier deal.** Germany's Federal Cartel Office, the country's national competition regulator, cleared Airbus' stake in the C-Series, noting the deal does not restrain competition in a significant way. (Bloomberg, Dec 6, 2017)
- **Bombardier to build Airbus engine component.** Bombardier announced that its Belfast plant will build a component for the Pratt & Whitney engine that powers Airbus' A320 neo aircraft. Prior to the deal, ~75% of manufacturing at Bombardier's aerostructures business was delivered in-house to programs including the Global 7000, and C-Series aircraft. The \$1.7 billion segment has EBIT margins of 9.3%. (The Globe and Mail, Dec 4, 2017)
- **Boeing-Bombardier feud continues.** The Canadian government announced it will buy used F-18 fighter jets from Australia, scuttling what was expected to be a \$6 billion order for Boeing's Super Hornet fighter jets. The decision comes ahead of a final determination by the Department of Commerce scheduled for December 19. (The Globe and Mail, Dec 12, 2017; BBC Dec 10, 2017)

Regional Jets

- **More Q400 turboprops ordered.** Bombardier has converted a letter of intent with CemAir for two Q400s into a firm order. The original LOI was signed in June at the Paris Air Show. Bombardier also obtained a firm purchase order for two Q400 aircraft with Nordic Aviation Capital. The order brings NAC's Q400 portfolio to 87 aircraft, making it the largest fleet owner of Q400s in the world. Combined, the orders are valued at ~\$130 million. (Bombardier press releases, Nov 15 & 29, 2017)

Business Jets

- **Challenger aircraft reach delivery milestones.** In November, the Challenger 350 surpassed 200 deliveries, boosting the total for the Challenger 300 series deliveries beyond 650. The newer Challenger 650 recorded its 50th delivery. All together, the Challenger 600 series now boasts close to 1,100 deliveries. Both jets are the best-selling business jets in their respective categories. (Bombardier press release, Dec 6, 2017)



CAE – Civil Aerospace / Military Industry Report

Civil

- **L3 secures large relocation and upgrade contract from ANA airlines** – L3 Commercial Training Solutions (L3 CTS) has been awarded a relocation and upgrade contract from ANA, the largest airline in Japan. Under this contract, L3 CTS will relocate 12 FFS and 8 lower-level devices from ANA's current training facility to its newly built training centre based in Tokyo. Along with the relocation, L3 will be carrying out updates to many of ANA's current devices and aircraft systems. The contract is a continuation of L3's long-term relationship with ANA, who recently purchased A320 and 787 aircraft full flight simulators from L3 CTS. (Aviation Pros, Nov 21, 2017)
- **TRU S+T provides Boeing 737 MAX FFS to Copa Airlines** – TRU Simulation+Training announced that it has entered into an agreement with Copa Airlines to provide a Boeing 737 MAX Full Flight Simulator. The addition will be used to fulfill the airline's growing pilot training requirements in the region. This will be the fourth device delivered to the Copa training center, which currently has two 737 Next Generation (NG) FFSs and a FFT-X simulator delivered in years prior. With the installation of TRU's training suite, the centre now offers its Boeing 737 pilot programs from initial training to type ratings and recurrent training. (TRU S+T, Nov 30, 2017)
- **CAE introduces new Embraer ERJ145 Pilot Training Program in the Middle East:** CAE and Abu Dhabi Aviation Training Center (ADATC) announced the launch of the new Embraer ERJ145 pilot training program with Falcon Aviation. Starting in H1/18, CAE and ADA will be delivering training to Falcon Aviation's pilots and regional operators. CAE and ADA have a relationship that spans over a decade; ADA currently operates numerous CAE-built FFSs, and expanded to include CAE instructor-led training and courseware as of last year. The sale was included as part of CAE's press release from December 2016. (CAE, Nov 15, 2017)
- **CAE expands training solutions relationship with JEUair in Korea:** JEUair, the largest South Korean low-cost carrier, announced that it entered into a new training solutions agreement with CAE, including the sale of two CAE-built Boeing 737 FFSs, to be delivered to the CAE Korea training centre. Under the contract, CAE will continue to provide maintenance and instructor-led training services to JEUair. (CAE, Dec 4, 2017)

Military

- **USAF states that it will not bring back retired enlisted pilots to be combat aviators:** Despite the pilot shortage from the active-duty Air Force and Air Force Reserve, USAF has stated that it will not be recalling retired pilots into service. The Air Force faces a shortage of about 2,000 aviators (1,300 of which are fighter pilots) as at the end of fiscal 2017. The Air Education and Training Command center's latest training experiment is set to begin next February, and is intended to find out if technology can accelerate the training of airmen from different educational backgrounds. It is estimated that two years of undergraduate fighter pilot training costs taxpayers approximately \$1 million per aviator. (Dayton Daily, Dec 11, 2017)



The Landing Strip

Singapore Airshow

When: February 6-11, 2018

Where: Singapore, Singapore

What: The event is Asia's largest Airshow and brings together leading aerospace companies.

The Buzz: The event features high-level conferences where leading players, including government and military representatives exchange ideas and look for solutions to advance the global aerospace and defense sector.



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			Count	Percent
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HOLD [Sector Perform]	660	40.67	154	23.33
SELL [Underperform]	104	6.41	7	6.73

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