



February 12, 2018

## RBC Flight Deck

### Positive trends to start the year

**RBC Fare Survey shows strongest ever reading for AC.** Both Air Canada and WestJet posted positive fare growth in the first 6 weeks of 2018. For AC, the RBC Fare survey tracked a significant price increase of 9.1% QTD, which follows a very strong 2017, in which positive fare increases were recorded in all four quarters. WestJet experienced modest fare growth of 2.0% quarter-to-date, but this follows a softer 2017, with strength only really being recorded in the third quarter.

**Traffic growth remains healthy.** Despite being halfway into one of the seasonally weakest quarters for the Canadian airlines, general traffic trends remain quite healthy. The North American peer group reported 4.5% traffic growth in January. So far, the carriers have managed capacity well, resulting in record-high load factors and positive yields. However, we expect capacity to increase heading into the year, which may have a dampening effect on load factors.

**WestJet traffic very robust.** WestJet reported strong traffic growth in January, up 6.5% in the month, well in excess of the 3.1% growth in capacity. This was a very positive start to the year for WJA, leading to a record system load factor of 82.6%.

#### In this edition...

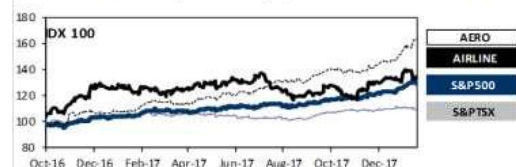
- **RBC Fare Tracker (p. 2):** Seeing positive fare growth, as per the RBC Fare Survey.
- **The Load Factor (p. 3):** Traffic demand remains robust.

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INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&P500	(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				
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				
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				
Alaska	(10.6)	(10.5)	(32.4)	▼
Allegiant	(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				
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

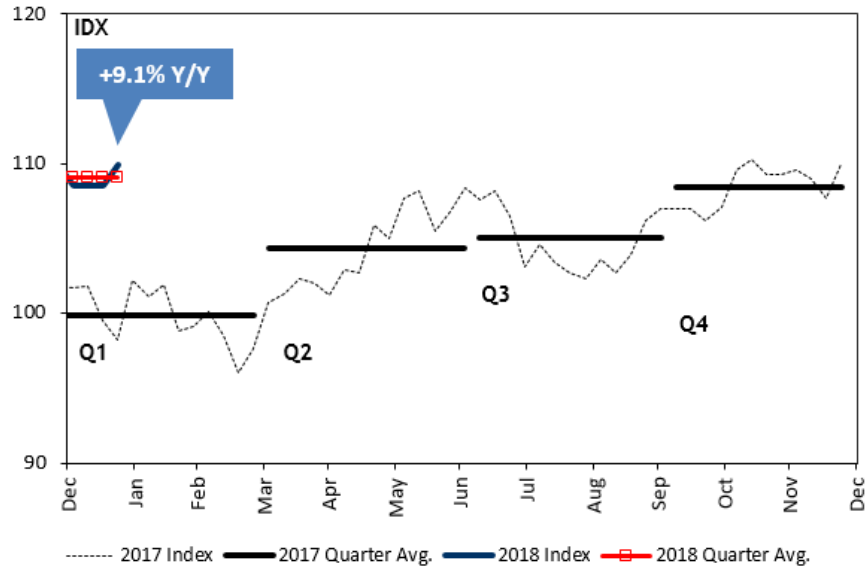


### RBC Fare Survey

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

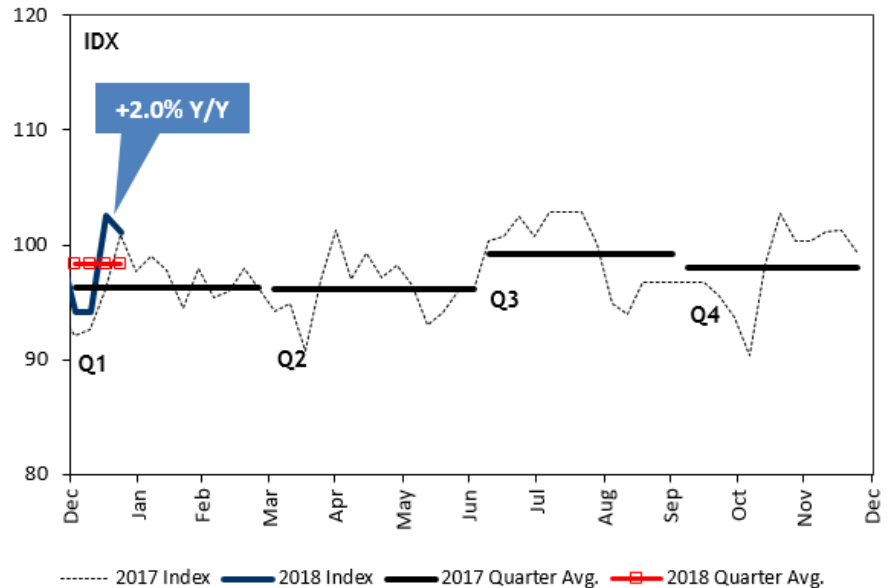
According to the RBC Fare tracker, fares at Air Canada increased in January on both a month-over-month and year-over-year basis. The domestic and transborder segments drove gains throughout the month, with some weakness in the vacation segment. The RBC Fare survey was tracking 9.1% higher Y/Y during January. When adjusting 250 bps to account for stage-length changes, our tracker points to a yield increase of +6.6%, well above our +3.0% estimate for Q1/18.



Source: RBC Capital Markets estimates, Company websites

#### WestJet

Fares rebounded towards the end of the month after dipping slightly at the start the year. Fares are now tracking 2% above last year’s levels. Following a weak December, fares in the domestic segment led gains this month, with both vacation and transborder generally flat. After adjusting down by 50 bps to account for stage length change, it implies a yield of 1.5%, which is below our +4.0% Q1 estimate.



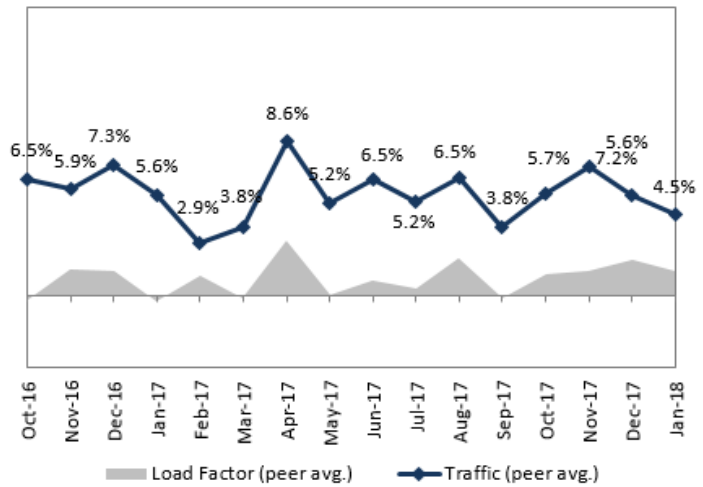
Source: RBC Capital Markets estimates, Company websites



## The Load Factor

### Industry trends

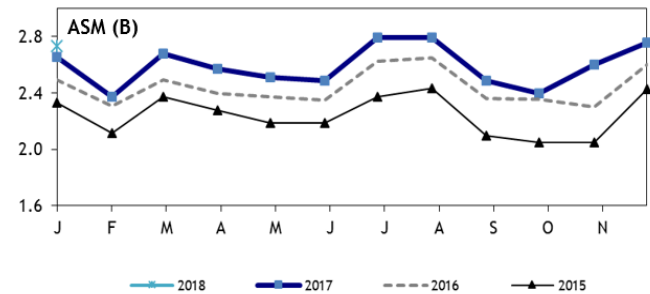
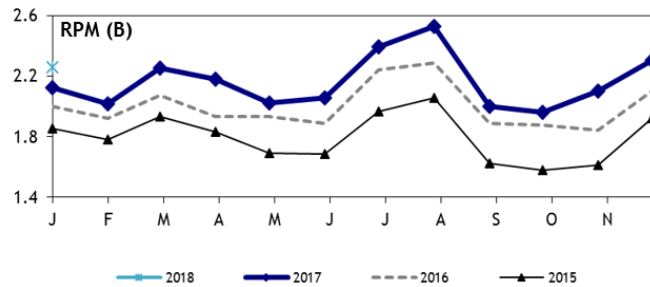
On average, the peer group reported 4.5% traffic growth in January, above the average capacity growth of 3.1%, leading to load factor growth of 1.4%. North American carriers managed capacity growth well throughout 2017, but we feel capacity will rise in the year to come.



Source: Company websites, RBC Capital Markets estimates

### WestJet

WestJet reported strong traffic growth in January, up 6.5%, which is above our estimate of 6%. This came on the back of capacity growth of 3.1% (vs. our 5.0% estimate), which led to a system load factor of 82.6% (up 260 points Y/Y).



	January			YTD		
	2018	2017	Δ	2018	2017	Δ
RPMs (B)	2.26	2.12	+6.5%	2.26	2.12	+6.5%
ASMs (B)	2.73	2.65	+3.1%	2.73	2.65	+3.1%
Load Factor	82.6%	80.0%	2.6 pts	82.6%	80.0%	2.6 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

- **Airbus deal has led to a pause in C Series orders: Bombardier executive.** Canada's Bombardier believes there has been a "bit of a pause" in orders of its C Series jet as airlines wait for it to complete a partnership deal with Airbus SE, its commercial sales head said on Tuesday. The Canadian manufacturer in October agreed to sell a majority stake in the C Series program, but the deal is awaiting regulatory approval. In the meantime, Bombardier and Airbus cannot coordinate on sales campaigns for the 110-130 seat jets. (Reuters, February 8, 2018).
- **Bombardier's upstart jet regains U.S. access in win over Boeing.** The U.S. International Trade Commission ruled Friday that American industry isn't being harmed by C Series sales. The unanimous vote blocked a Commerce Department decision last year to impose duties of almost 300 percent after a complaint by Boeing. The Chicago-based company said Bombardier sold the C Series in the U.S. at less than fair value while benefiting from government subsidies. The decision means Bombardier can make deliveries to Delta Air Lines Inc. The U.S. carrier threw a lifeline to the slow-selling jets in 2016 by ordering at least 75 CS100 planes, in a deal with a list value of \$5.6 billion at the time. (Bloomberg, January 27, 2018).

#### Regional Jets

- **ATR in pole position to launch new turboprop – for now.** ATR is an enviable position: the Airbus-Leonardo joint venture supplies more than three-quarters of the annual demand for regional turboprops, has an order backlog – significantly bolstered in 2017 – equating to around three years of production. Perhaps most significantly, its sole Western competitor, Bombardier, is currently occupied with matters other than rejuvenating its Q400 line. (Flight Global, January 26, 2018).
- **Conair boosts Q400 order book with deal for six tankers.** Aerial firefighting firm Conair has ordered six new-build Bombardier Q400s that will be used as multirole aerial firefighting aircraft, in a deal worth \$206 million at list prices. The aircraft will receive Conair's retardant delivery system, which includes a tank that can be removed so that the aircraft can perform other missions, such as passenger and cargo transport, medical evacuation, and coast patrol, says Bombardier. (Flight Global, January 16, 2018)

#### Business Jets

- **Bombardier enters final phase of Global 7000 testing.** Bombardier has entered the final phase of a 14-month-old airworthiness campaign after the fifth Global 7000 business jet entered flight testing on 30 January. The debut for flight-test vehicle (FTV) 5 keeps the programme on track for gaining type certification in the second half of this year. (Flight Global, Jan 31, 2018).



## CAE – Civil Aerospace / Military Industry Report

### Civil

- **L-3 launches new cadet pilot training program with Jetstar Asia Airways:** L-3 CTS announced that it has launched a new cadet training program with Jetstar Asia Airways, designed to train students into professional pilots for the airline. The program is scheduled to begin in mid-2018, with the students undertaking a six-month ground school training based in Singapore, then commence flight training on L3 simulators in a training centre based in New Zealand. Upon successful completion, they will proceed to A320 type-rating with Jetstar Asia. (L3, Feb 7)
- **CAE launches CAE Rise training system with AirAsia:** CAE launched its CAE Rise training system, the first commercial offering as part of its “Next Gen Training System” initiative with longstanding customer AirAsia. The system employs a series of training system methods developed to allow more standardized training in accordance with the airline’s SOPs, and to assess pilot competencies using live data during training sessions. CAE reported FQ3/8 results showing growth in all segments, with record civil bookings and improving return profiles on Feb 9 (see our note here). (CAE, Feb 5)

### Military

- **AECOM receives 9-year, \$440MM+ contract to provide rotary wing training services to US Army:** AECOM rotary wing flight training was awarded a US\$442MM contract by the US Army to provide rotary wing flight training instructor support services. The contract value includes a 12-month base period plus 8 option years, expected to be completed by Sep 2026. AECOM will provide personnel, supervision and other services to support the Army’s rotary wing flight training programs based in Fort Rucker, Alabama. (AECOM, Jan 22).



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	26,472	18,790	84,531	19,533	22,079	27,928	19,635	89,176	20,021	22,631	28,626	20,126	91,405	93,233
% change	13.2%	14.0%	13.6%	8.8%	6.5%	10.5%	6.5%	5.5%	5.5%	4.5%	5.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.0%
Capacity / ASM (MMs)	92,726	22,894	25,357	31,050	23,637	102,938	24,497	26,878	32,913	24,819	109,107	25,231	27,685	33,900	25,564	112,380	115,752
% change	14.7%	15.4%	13.5%	9.1%	7.0%	11.0%	7.0%	6.0%	6.0%	5.0%	6.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Load Factor (%)	82.5%	80.1%	82.5%	85.3%	79.5%	82.1%	79.7%	82.1%	84.9%	79.1%	81.7%	79.4%	81.7%	84.4%	78.7%	81.3%	80.5%
change (% pts)	-1.0%	-1.0%	0.1%	-0.2%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.8%
Yield (\$)	0.169	0.165	0.165	0.166	0.171	0.167	0.170	0.170	0.171	0.176	0.172	0.172	0.172	0.173	0.178	0.174	0.176
% change	-6.4%	-5.1%	-1.4%	0.4%	1.0%	-1.4%	3.0%	3.0%	3.0%	3.0%	3.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.5%
RASM (Rev per unit of capacity, cents)	14.2	13.2	13.6	14.2	13.6	13.9	13.6	14.0	14.5	13.9	14.0	13.7	14.1	14.6	14.0	14.1	14.2
CASM (excl. fuel) (cents)	11.5	12.9	11.2	9.5	11.8	11.1	12.4	10.9	9.5	11.6	11.0	12.4	10.9	9.5	11.5	11.0	11.0
<b>Total Revenues</b>	<b>14,677</b>	<b>3,642</b>	<b>3,910</b>	<b>4,880</b>	<b>3,646</b>	<b>16,078</b>	<b>3,888</b>	<b>4,162</b>	<b>5,191</b>	<b>3,905</b>	<b>17,146</b>	<b>4,019</b>	<b>4,306</b>	<b>5,372</b>	<b>4,039</b>	<b>17,736</b>	<b>18,334</b>
Wages, salaries and benefits	2510	644	663	690	652	2649	683	703	711	692	2789	718	739	747	727	2930	3064
% Sales	17.1%	17.7%	17.0%	14.1%	17.9%	16.5%	17.6%	16.9%	13.7%	17.7%	16.3%	17.9%	17.2%	13.9%	18.0%	16.5%	16.7%
Aircraft Fuel - total	2606	754	797	941	773	3265	883	945	1136	858	3822	883	940	1132	859	3814	3767
% Sales	17.8%	20.7%	20.4%	19.3%	21.2%	20.3%	22.7%	22.7%	21.9%	22.0%	22.3%	22.0%	21.8%	21.1%	21.3%	21.5%	20.5%
Sales and distribution costs	703	205	199	204	189	797	214	206	210	194	823	221	212	216	199	848	873
% Sales	4.8%	5.6%	5.1%	4.2%	5.2%	5.0%	5.5%	4.9%	4.0%	5.0%	4.8%	5.5%	4.9%	4.0%	4.9%	4.8%	4.8%
Food, beverages, supplies	349	85	97	112	87	381	91	103	119	92	404	94	106	122	95	416	429
% Sales	2.4%	2.3%	2.5%	2.3%	2.4%	2.4%	2.3%	2.5%	2.3%	2.4%	2.4%	2.3%	2.5%	2.3%	2.3%	2.3%	2.3%
Aircraft maintenance	883	228	226	241	263	958	235	233	248	271	987	242	240	256	279	1016	1047
% Sales	6.0%	6.3%	5.8%	4.9%	7.2%	6.0%	6.0%	5.6%	4.8%	6.9%	5.8%	6.0%	5.6%	4.8%	6.9%	5.7%	5.7%
Airport and navigation fees	859	210	230	264	217	921	220	238	273	223	955	226	246	281	230	984	1013
% Sales	5.9%	5.8%	5.9%	5.4%	6.0%	5.7%	5.7%	5.7%	5.3%	5.7%	5.6%	5.6%	5.7%	5.2%	5.7%	5.5%	5.5%
Communications and information tech	242	71	58	63	64	256	69	53	57	60	239	71	55	59	61	246	241
% Sales	1.6%	1.9%	1.5%	1.3%	1.8%	1.6%	1.8%	1.3%	1.1%	1.5%	1.4%	1.8%	1.3%	1.1%	1.5%	1.4%	1.3%
Other	3268	847	867	904	824	3442	867	882	912	855	3516	876	891	938	832	3537	3656
% Sales	22.3%	23.3%	22.2%	18.5%	22.6%	21.4%	22.3%	21.2%	17.6%	21.9%	20.5%	21.8%	20.7%	17.5%	20.6%	19.9%	19.9%
Regional airline expense (ex fuel and	2027	521	535	535	532	2123	537	549	543	551	2179	555	568	562	529	2214	2288
% Sales	13.8%	14.3%	13.7%	11.0%	14.6%	13.2%	13.8%	13.2%	10.5%	14.1%	12.7%	13.8%	13.2%	10.5%	13.1%	12.5%	12.5%
<b>Total Operating Costs</b>	<b>11,420</b>	<b>3,044</b>	<b>3,137</b>	<b>3,419</b>	<b>3,070</b>	<b>12,670</b>	<b>3,262</b>	<b>3,363</b>	<b>3,665</b>	<b>3,244</b>	<b>13,534</b>	<b>3,331</b>	<b>3,427</b>	<b>3,751</b>	<b>3,282</b>	<b>13,791</b>	<b>14,090</b>
<b>EBITDAR</b>	<b>2,768</b>	<b>342</b>	<b>670</b>	<b>1,388</b>	<b>466</b>	<b>2,866</b>	<b>362</b>	<b>693</b>	<b>1,450</b>	<b>548</b>	<b>3,053</b>	<b>416</b>	<b>770</b>	<b>1,543</b>	<b>641</b>	<b>3,370</b>	<b>3,651</b>
% of sales	18.9%	9.4%	17.1%	28.4%	12.8%	17.8%	9.3%	16.6%	27.9%	14.0%	17.8%	10.4%	17.9%	28.7%	15.9%	19.0%	19.9%
<b>EPS (F.D) (\$) (Exc. Special charges)</b>	<b>\$ 4.11</b>	<b>\$ (0.32)</b>	<b>\$ 0.78</b>	<b>\$ 3.43</b>	<b>\$ 0.10</b>	<b>\$ 3.99</b>	<b>\$ (0.22)</b>	<b>\$ 0.56</b>	<b>\$ 2.26</b>	<b>\$ 0.27</b>	<b>\$ 2.86</b>	<b>\$ (0.12)</b>	<b>\$ 0.72</b>	<b>\$ 2.45</b>	<b>\$ 0.49</b>	<b>\$ 3.55</b>	<b>\$ 4.17</b>

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	6,786	6,666	7,441	6,835	27,729	7,295	7,166	7,999	7,348	29,808
% change	11.3%	6.8%	8.9%	7.9%	8.8%	8.1%	6.2%	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	8,032	8,093	8,722	8,348	33,196	8,675	8,741	9,420	9,016	35,852
% change	8.9%	5.5%	6.3%	5.8%	5.6%	5.8%	4.3%	7.0%	8.0%	9.0%	7.1%	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%	84.5%	82.4%	85.3%	81.9%	83.5%	84.1%	82.0%	84.9%	81.5%	83.1%
change (%pts)	1.8%	0.9%	2.0%	1.7%	2.4%	1.8%	1.5%	-0.4%	-0.4%	-0.8%	0.0%	-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	15.3	14.3	15.3	14.7	14.9	15.4	14.4	15.4	14.8	15.0
CASM (excl. fuel) (cents)	10.0	10.4	9.9	9.6	10.3	10.0	10.8	10.2	10.0	10.3	10.3	10.9	10.3	10.2	10.4	10.4
<b>Total Revenues</b>	<b>4,122.9</b>	<b>1,114.3</b>	<b>1,055.0</b>	<b>1,215.6</b>	<b>1,117.4</b>	<b>4,502.3</b>	<b>1,230.2</b>	<b>1,156.9</b>	<b>1,332.8</b>	<b>1,231.1</b>	<b>4,950.9</b>	<b>1,335.6</b>	<b>1,256.1</b>	<b>1,447.1</b>	<b>1,336.7</b>	<b>5,375.5</b>
% change	2.3%	8.0%	11.1%	8.1%	9.8%	9.2%	10.4%	9.7%	9.6%	10.2%	10.0%	8.6%	8.6%	8.6%	8.6%	8.6%
Airport Operations	581.9	168.9	154.5	127.1	158.7	609.3	173.0	159.0	132.1	173.0	637.1	186.8	171.7	142.6	186.9	688.0
% change	4%	6%	6%	6%	2%	5%	2%	3%	4%	9%	5%	8%	8%	8%	8%	8%
Aircraft Fuel	765.9	235.5	224.9	238.0	251.6	950.0	278.2	272.1	288.3	265.5	1104.1	289.9	286.1	305.3	283.5	1164.8
% 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	63.5	58.3	68.3	63.5	253.5	68.5	63.0	73.7	68.6	273.8
% change	1%	6%	6%	6%	2%	5%	2%	3%	4%	9%	5%	8%	8%	8%	8%	8%
Sales & Distribution	442.7	114.4	109.6	127.1	112.6	463.9	117.2	112.8	132.1	122.8	484.9	126.6	121.9	142.6	132.6	523.7
% change	16%	6%	6%	6%	2%	5%	2%	3%	4%	9%	5%	8%	8%	8%	8%	8%
Marketing, General & Administrative	243.2	64.3	59.8	69.3	61.4	254.9	65.9	61.5	72.0	67.0	266.4	71.1	66.5	77.8	72.3	287.7
% change	5%	6%	6%	6%	2%	5%	2%	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	154.0	143.6	168.1	156.3	622.0	166.3	155.1	181.5	168.8	671.7
% change	14%	6%	6%	6%	2%	5%	2%	3%	4%	9%	5%	8%	8%	8%	8%	8%
In-Flight	232.1	62.1	56.8	65.9	58.4	243.2	63.6	58.5	68.4	63.6	254.1	68.7	63.1	73.9	68.7	274.5
% change	12%	6%	6%	6%	2%	5%	2%	3%	4%	9%	5%	8%	8%	8%	8%	8%
Employee Profit Sharing	59.3	7.0	7.8	27.6	4.4	46.8	18.5	17.4	20.0	18.5	74.3	20.0	18.8	21.7	20.0	80.6
% change	-41%	-69%	-751%	-13%	-32%	-21%	163%	124%	-28%	320%	59%	9%	9%	9%	9%	9%
<b>EBITDAR (after profit sharing)</b>	<b>969.0</b>	<b>223.0</b>	<b>217.9</b>	<b>342.4</b>	<b>224.5</b>	<b>1,007.9</b>	<b>240.6</b>	<b>206.3</b>	<b>328.6</b>	<b>255.9</b>	<b>1,031.3</b>	<b>269.0</b>	<b>228.4</b>	<b>358.9</b>	<b>276.9</b>	<b>1,133.1</b>
% of sales	23.5%	20.0%	20.7%	28.2%	20.1%	22.4%	19.6%	17.8%	24.7%	20.8%	20.8%	20.1%	18.2%	24.8%	20.7%	21.1%
<b>EPS F.D.</b>	<b>2.45</b>	<b>0.41</b>	<b>0.41</b>	<b>1.18</b>	<b>0.41</b>	<b>2.41</b>	<b>0.46</b>	<b>0.32</b>	<b>0.99</b>	<b>0.57</b>	<b>2.34</b>	<b>0.54</b>	<b>0.37</b>	<b>1.07</b>	<b>0.61</b>	<b>2.59</b>

Source: Company Reports; RBC Capital Markets Estimates



Chorus Aviation (TSX: CHR)

FY Dec 31	2016	Q1/17	Q2/17	Q3/17	Q4/17E	2017E	Q1/18E	Q2/18E	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	2020E
Billable Block Hours ('000s)	342,768	84,515	88,795	96,674	88,580	358,564	85,360	89,683	97,641	89,466	362,150	86,214	90,580	98,617	90,361	365,771	369,429
% change	-6.9%	0.2%	7.0%	6.2%	5.0%	4.6%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Available Seat Miles ('000s)	5071289.2	1181954	1352906	1480461	1294266	5309587	1193774	1366435	1495266	1307208	5362683	1205711	1380099	1510218	1320280	5416310	5470473
change (% pts)	-7.0%	0.2%	7.0%	6.2%	5.0%	4.7%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
CASM (cents)	22.191122	24.77389	21.7993	19.51777	22.26314	21.93838	23.62683	21.25609	19.35219	21.39062	21.28577	24.33043	21.37718	19.46233	21.50727	21.5324	21.67119
% change	-13.3%	-0.5%	0.0%	-3.7%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Chorus Aviation Income Statement (\$MM)</b>																	
Revenue	1,277	321	333	345	343	1,342	341	348	347	341	1,376	357	359	358	352	1,426	1,471
% change	-17.3%	0.0%	7.5%	4.1%	8.9%	5.1%	6.4%	4.3%	0.7%	-0.8%	2.6%	4.6%	3.3%	3.2%	3.2%	3.6%	3.2%
Salaries, wages and benefits	433	114	112	109	112	447	104	105	100	103	412	106	107	102	105	421	429
% Sales	34%	36%	33%	32%	33%	33%	31%	30%	29%	30%	30%	30%	30%	28%	30%	30%	29%
Aircraft fuel	3	1	1	1	1	3	1	1	1	1	3	1	1	1	1	3	3
% Sales	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Depreciation and amortization	81	22	23	27	27	99	24	24	23	23	94	23	23	23	23	93	92
% Sales	6%	7%	7%	8%	8%	7%	7%	7%	7%	7%	7%	7%	6%	6%	7%	7%	6%
Food and beverage	13	3	0	0	4	8	3	0	0	4	8	3	0	0	4	8	8
% Sales	1%	1%	0%	0%	1%	1%	1%	0%	0%	1%	1%	1%	0%	0%	1%	1%	1%
Aircraft maintenance	168	44	46	44	32	167	44	46	44	32	167	46	48	45	33	172	177
% Sales	13%	14%	14%	13%	9%	12%	13%	13%	13%	9%	12%	13%	13%	13%	9%	12%	12%
Airport and navigation fees	161	39	43	46	42	170	41	43	47	42	173	41	44	48	43	177	180
% Sales	13%	12%	13%	13%	12%	13%	12%	12%	14%	12%	13%	12%	12%	13%	12%	12%	12%
Aircraft rent	91	25	27	24	24	100	25	25	25	25	101	25	25	25	25	101	101
% Sales	7%	8%	8%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Terminal handling	39	9	6	6	9	31	10	7	6	9	31	10	7	6	9	32	33
% Sales	3%	3%	2%	2%	3%	2%	3%	2%	2%	3%	2%	3%	2%	2%	3%	2%	2%
Other	136	35	38	32	37	142	31	39	43	39	153	38	40	43	40	161	163
% Sales	11%	11%	11%	9%	11%	11%	9%	11%	12%	12%	11%	11%	11%	12%	11%	11%	11%
Total Operating Expenses	1,125	293	295	289	288	1,165	282	290	289	280	1,141	293	295	294	284	1,166	1,186
Operating Income	151	28	38	56	55	177	59	57	58	61	235	63	64	64	68	259	286
EBITDAR	324	75	88	107	106	376	108	106	106	109	430	112	113	112	116	453	479
% of sales	25.4%	23.3%	26.4%	31.0%	30.9%	28.0%	31.6%	30.5%	30.6%	32.1%	31.2%	31.3%	31.3%	31.4%	33.0%	31.8%	32.5%
EBITDA	233	50	61	83	82	276	83	81	81	84	329	87	87	87	91	352	378
% of sales	53.8%	43.6%	54.7%	76.2%	73.2%	61.7%	79.4%	76.9%	81.1%	81.8%	79.7%	81.6%	81.4%	85.7%	86.3%	83.7%	88.1%
Net Income	102	17	47	76	34	175	37	35	34	36	142	37	37	37	39	150	162
EPS (F.D) (\$) (Excluding Special charges)	\$0.89	\$0.21	\$0.32	\$0.62	\$0.27	\$1.43	\$0.29	\$0.27	\$0.27	\$0.28	\$1.11	\$0.29	\$0.29	\$0.29	\$0.30	\$1.18	\$1.27
CFPS (F.D) (\$) (Excluding Special charges)	\$1.69	\$0.38	\$0.41	\$0.58	\$0.48	\$1.86	\$0.48	\$0.46	\$0.45	\$0.47	\$1.85	\$0.47	\$0.47	\$0.47	\$0.49	\$1.91	\$2.00

Source: Company reports, RBC Capital Markets estimates



## Companies mentioned

Air Canada (TSX: AC CN; C\$22.59; Outperform; Speculative Risk)

Chorus Aviation Inc. (TSX: CHR.TO; C\$9.02; Outperform)

WestJet Airlines Ltd. (TSX: WJA.TO; C\$23.99; Sector Perform)

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RBC Dominion Securities Inc. makes a market in the securities of Chorus Aviation Inc..

RBC Capital Markets has provided Chorus Aviation Inc. with investment banking services in the past 12 months.

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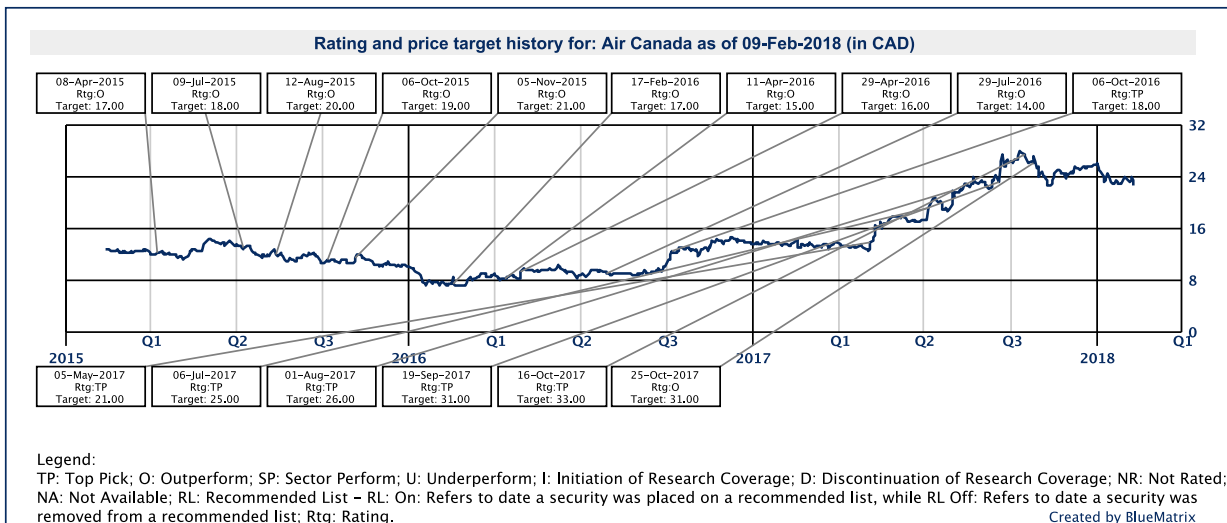


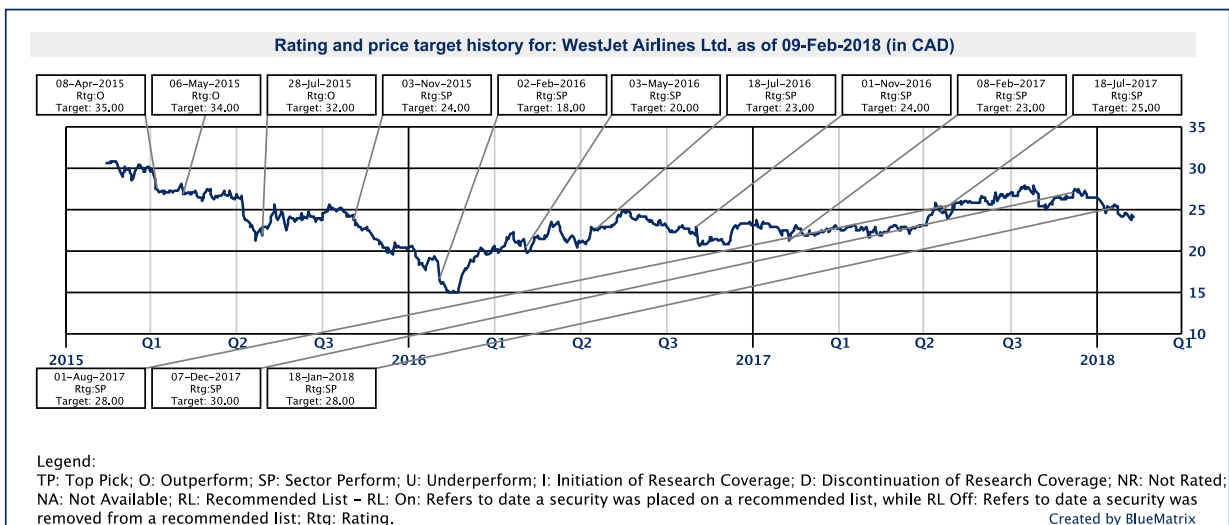
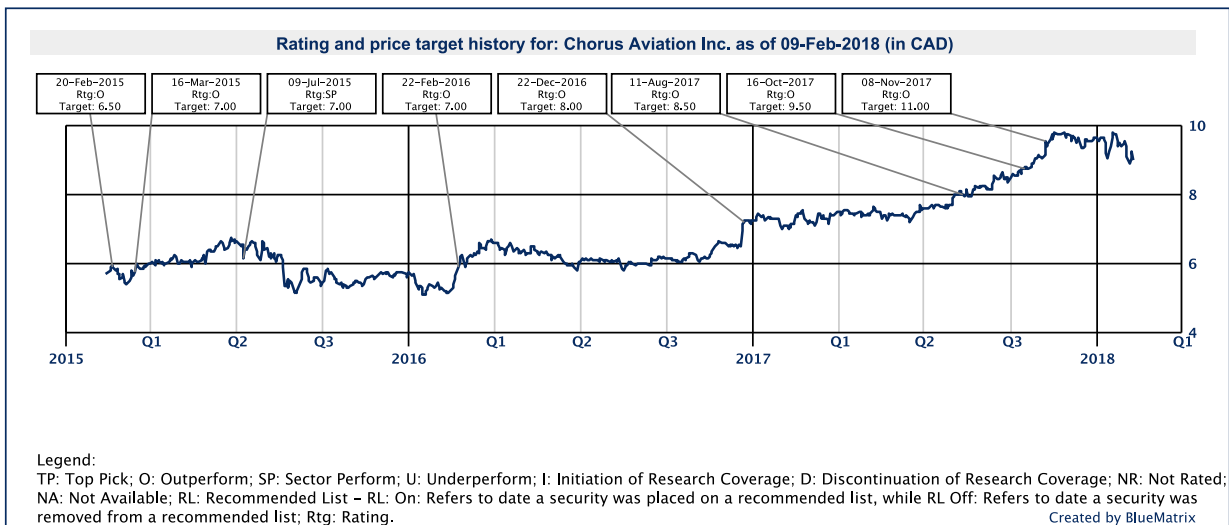
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			Count	Percent
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## Air Canada

### Valuation

Our \$31.00 target price is based on a 4.5x EV/EBITDAR multiple applied to our 2019 estimates, which is at a discount to the peer average of 5.2x owing to the currently higher leverage and lower operating margins compared to peers. 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 Outperform, 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.

## Chorus Aviation Inc.

### Valuation

Our \$11.00 price target is derived from a sum-of-the-parts valuation. We value Chorus's core-CPA segment at a 6.5x EV/EBITDAR multiple based on our 2019 estimates and we value the company's new leasing segment at a 7.0x P/E multiple based on our assumptions for operating and funding costs attributable to the segment. This generates our \$11.00 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 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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