



May 18, 2017

RBC Flight Deck

Operating metrics gaining thrust

Traffic trends accelerating to the upside. Another month passed, another month of positive traffic growth. However, heading into the seasonally largest third quarter for the Canadian airlines, it appears that general traffic trends are accelerating to the upside. In April, WestJet reported traffic growth at 12.8% Y/Y (vs. our 6%), on capacity growth at 7.3% (vs. our 6%). While Air Canada no longer provides monthly traffic stats, the peer early responders reported 8.6% traffic growth in April – exceeding the average capacity growth of 7.6%. What is interesting to note this month is that while Delta only generated 1.1% traffic growth (the lowest of the peer group), the carrier also took out -0.8% capacity. And as such, saw load factors expand in April, which we see as highlighting the rationality of the US mainline carriers.

Fare prices picking up altitude. We saw three consecutive weeks in April of higher fare prices for Air Canada, as compiled by the RBC Fare Survey. While tracking below the Y/Y trends for the second quarter, the positive fare price growth if sustained will further close the Y/Y average pricing gap. For WestJet, the RBC Fare Survey did pick-up a rebasing of fares higher in mid-April. For the first month in Q2/17, the RBC Fare Survey is showing fare prices are up +1.9% Y/Y for WestJet. After adjusting down by 50bp to account for stage length changes, it implies a yield of +1.4% Y/Y, as compared to our current Q2/17 yield estimate at +1.2%.

New potential CSeries buyer coming into the fold. We have added a new potential CSeries buyer to our Bombardier New Order Heat Map (pg. 4). Qatar Investment Authority and Qatar Air plan to submit a joint application to set up a new Indian carrier according to Bloomberg. The planned venture would look for 100 planes to launch operations, with the venture citing interest in the CSeries.

In This Edition...

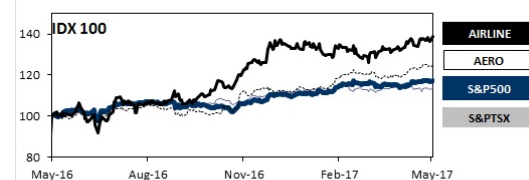
- **RBC Fare Tracker (p. 2):** Seeing positive fare growth, as per the RBC Fare Survey.
- **The Load Factor (p. 3):** Traffic demand remains robust.
- **The Bombardier New Order Heat Map (p. 4):** Looking for sales momentum as the CSeries flies revenue generating routes and heads into the Paris Air Show in June.

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INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTSX	0.6	2.2	13.7	Δ
S&P 500	3.2	7.3	17.4	Δ
AMEX Airline	5.0	4.2	38.7	Δ
AMEX Aerospace	4.6	11.9	24.4	Δ



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	(8.9)	(13.5)	(1.1)	▼
Jet Fuel	(11.3)	(10.1)	9.0	▼
CAD/USD	2.4	1.5	5.7	Δ

AEROSPACE				
Bombardier	(5.7)	(1.4)	8.6	▼
Boeing	3.9	17.2	38.0	Δ
EADS	4.1	18.2	34.7	Δ
Embraer	2.6	6.6	(2.2)	Δ
General Dynamics	4.5	13.0	35.2	Δ
Textron	3.1	(1.2)	28.4	Δ
United Technologies	7.9	10.3	20.6	Δ

N.A. MAINLINE				
Air Canada	23.0	18.1	72.0	Δ
AMR	7.7	(0.0)	48.1	Δ
Delta	12.4	0.7	19.0	Δ
United	12.6	6.7	77.4	Δ

N.A. REGIONAL				
Alaska	(1.7)	(4.4)	28.1	▼
Allegiant	(4.6)	(12.8)	1.7	▼
Chorus Aviation	1.2	4.0	17.9	Δ
JetBlue	2.6	(5.2)	16.3	Δ
SkyWest	7.4	(2.6)	56.2	Δ
Southwest	6.8	16.4	39.6	Δ
WestJet	(4.8)	(5.3)	0.2	▼

INTL. AIRLINES				
Lufthansa	11.6	38.3	37.5	Δ
Air France/KLM	31.0	84.4	31.8	Δ
BA/Iberia	11.1	36.1	19.3	Δ
Cathay Pacific	(4.5)	(28.1)	(25.0)	▼
Air China	4.8	45.9	28.5	Δ
China Eastern	(4.0)	20.6	(2.5)	▼
China Southern	(0.7)	35.5	13.5	▼
Singapore Airlines	4.7	10.1	(1.4)	Δ
Qantas	22.6	43.5	40.6	Δ

Source: Bloomberg

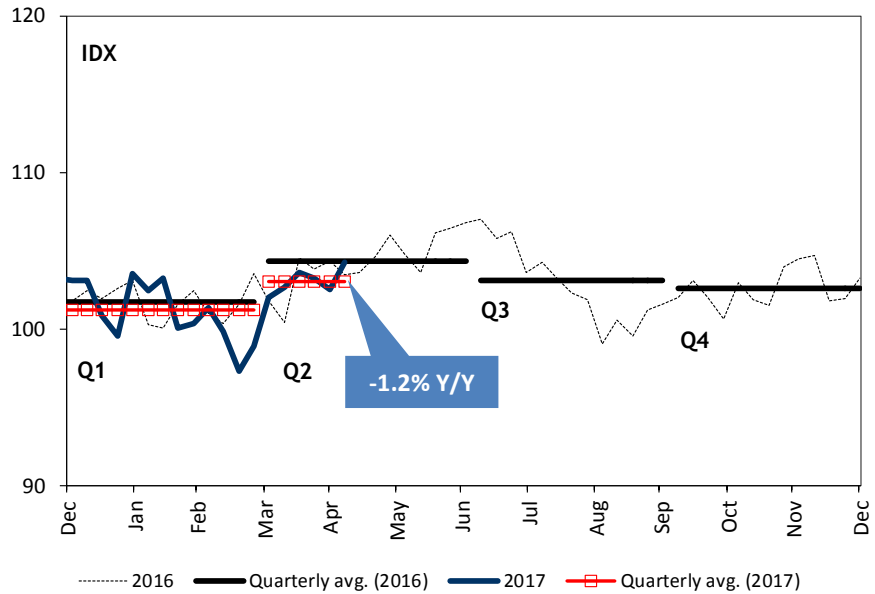


RBC Fare Survey

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

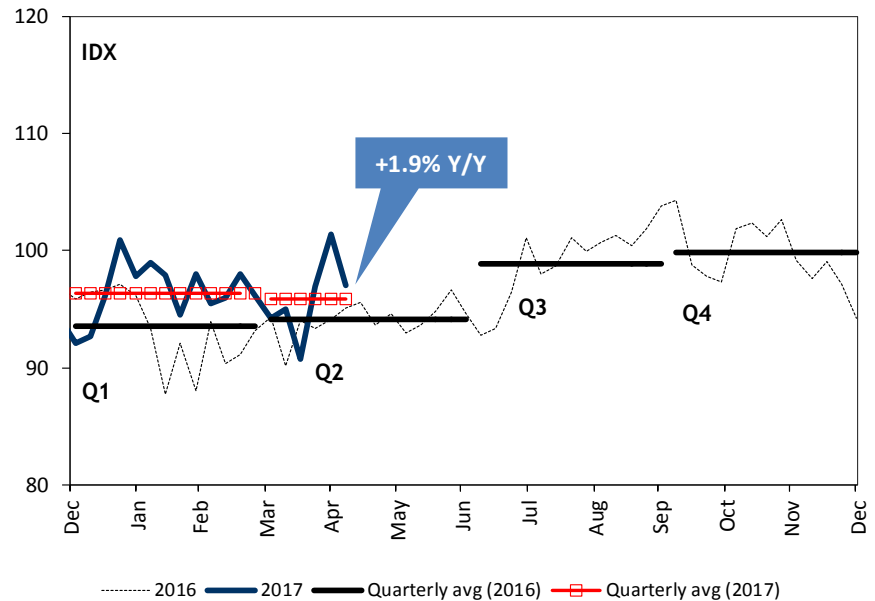
We saw three consecutive weeks in April of higher fare prices for Air Canada, as compiled by the RBC Fare Survey. While tracking below the Y/Y trends for the second quarter, the positive fare price growth if sustained will further close the Y/Y average pricing gap. For the first month in Q2/17, the RBC Fare Survey tracked fare price declines of -1.2% Y/Y for Air Canada. After adjusting by 350bp to account for stage length changes, it points towards a yield decline of -4.7%, which compares to our current Q2/17 yield estimate at -3%.



Source: RBC Capital Markets estimates, Company websites

WestJet

For WestJet, the RBC Fare Survey did pick-up a rebasing of fares higher in mid-April. For the first month in Q2/17, the RBC Fare Survey is showing fare prices are up +1.9% Y/Y for WestJet. After adjusting down by 50bp to account for stage length changes, it implies a yield of +1.4% Y/Y, as compared to our current Q2/17 yield estimate at +1.2%.

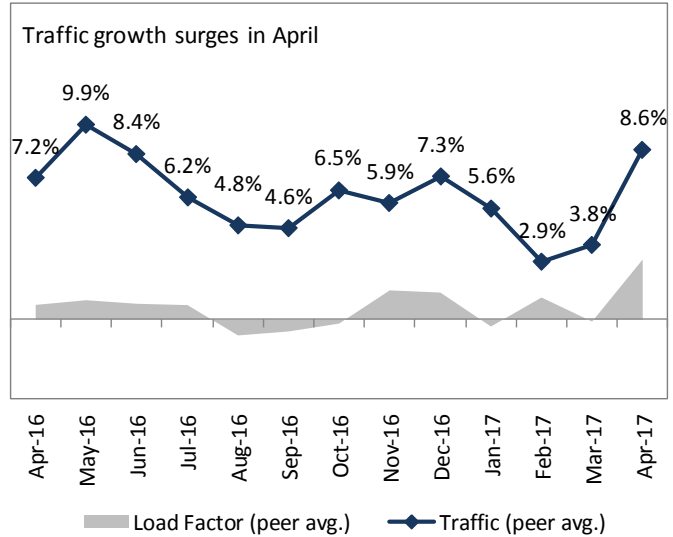


Source: RBC Capital Markets estimates, Company websites

The Load Factor

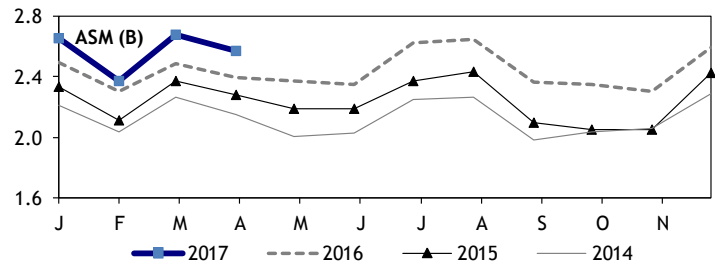
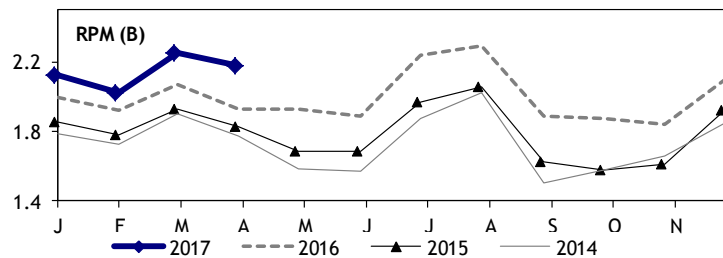
Industry trends

On average, the airlines that were the early responders reported 8.6% traffic growth in April – exceeding the average capacity growth of 7.6% and leading to higher load factors. What is interesting to note this month is that while Delta only generated 1.1% traffic growth (the lowest of the peer group), the carrier also took out -0.8% capacity. And as such, saw load factors expand in April, which we see as highlighting the improved rationality of the US mainline carriers.



WestJet

WestJet reported another strong month of traffic growth that exceeded new capacity. For the month of April, WestJet reported traffic growth at 12.8% Y/Y (vs. our 6%), on capacity growth at 7.3% (vs. our 6%). This led to a very healthy load factor at 84.8% (up 420bp). WestJet is benefitting from the charter contract it signed with Suncor last September, which provides for ~100 weekly flights to Suncor’s operations in western Canada. Overall, we do see the continued growth in traffic numbers indicative of a still strong air travel demand environment, which is a positive for improving pricing trends despite new capacity being brought on line.












	April			Year to date		
	2017	2016	Δ	2017	2016	Δ
RPMs (B)	2.178	1.930	+12.8%	8.571	7.918	+8.2%
ASMs (B)	2.569	2.394	+7.3%	10.268	9.689	+6.6%
Load Factor	84.8%	80.6%	4.2 pts	83.5%	81.7%	1.8 pts

Source: RBC Capital Markets estimates, Company websites

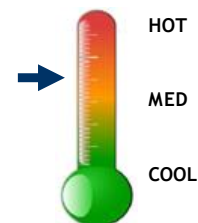
Bombardier New Order Heat Map

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
(NEW) 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.	
Multiple airlines	Commercial: C-Series	Potentially 50+ (~\$3.4B)	With eight airlines with C-Series order commitments (at 200+ aircraft), BBD could announce several conversions to firm orders.	
Chinese Airlines	Commercial: C-Series	+20 potential order size (+\$1.4B)	BBD flew in the CS300 to Air Show China last month, which generated good interest. With two conditional orders, which includes 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.	
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.	
SpiceJet	Regional: Q400	Up to 50	The carrier is looking to buy 50 additional regional jets and is in talks with Bombardier, ATR and Embraer about placing a large aircraft.	
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.	
Delta Air Lines	Regional: CRJ900	Potentially 50+ (~\$2.3B)	Recent Union negotiations failed to secure scope-clause changes for 100-seat jets to be flown by regional airlines. Next opportunity will be in 2018.	

OVERALL HEAT GAUGE

We are maintaining the heat at more elevated levels. With the C-Series now on revenue generating flights, and as performance and dispatch reliability numbers come in, we are seeing a pick-up in interest in the C-Series. The Paris Air Show in June will be a good test, and while order announcements cannot be timed, we will be looking for indications of broader interest in the aircraft at the air show.





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

- **No dumping allowed.** The U.S. International Trade Commission is opening an investigation into commercial aircraft imports from Canada, following dumping allegations by Boeing against Bombardier for their sale of C series jets to Delta Airlines. Boeing argued that Bombardier was unfairly aided by the Canadian government financially, resulting in excess market supply and delivery of jets at costs below production, \$19.6MM sale price compared to a \$33.2MM production cost. Canadian Prime Minister Justin Trudeau defended the government's financial aid to the company, highlighting the importance of upholding Canadian competitiveness. (Flight Global, April 28)
- **Pension plans getting active.** The Canada Pension Plan Investment Board (CPPIB), Ontario Teachers' Pension Plan (OTPP), Caisse de dépôt et placement du Québec, and British Columbia Investment Management Corp. voiced their opposition to re-electing Pierre Beaudoin, Bombardier's Executive Chairman. Bombardier's senior executive pay rises worth \$32MM raised concerns among investors and government officials given the company's receipt of \$1.37B of government financial aid. On May 11, Beaudoin stepped down from his Executive Chairman role—instead continuing to lead as Chairman of the Board of Directors. (Sources: Globe and Mail, May 11)
- **MRO service, more sales.** Bombardier opened a new 8,500 square meter maintenance, repair and overhaul (MRO) facility in Tianjin, China. It will offer hangar space, offices, as well as back shop areas. This is part of Bombardier's strategy to serve a larger segment of Asia's aerospace industry. The facility strives to strengthen Bombardier's customer support network in China, with support from more Field Service Representatives, Customer Support Account Managers, and four Authorized Service facilities. (Source: Bombardier, April 7)

Regional jets

- **Binter's coming.** Regional Canary Islands-based operator, Binter Canarias received its first CRJ1000 aircraft delivery, under a leasing agreement with Air Nostrum, a Spanish airline. The second aircraft is due for delivery in May 2017. Binter Canarias plans to use the jets on routes to Portugal, Cape Verde and Western Africa. (Flight Global, March 2017)

Business jets

- **London calling.** According to Flight Global, while London's big two airports are almost entirely focused on airlines, the other three commercial airports – Luton, Stansted and City – have thriving business aviation operations. There are other smaller airports too. Blackbushe in Surrey – just 9km from Farnborough and base of Cessna Mustang air taxi operator Blink – promotes itself as being the most cost-effective airport for business jet users. Its simple terminal building contrasts with Farnborough's opulent facilities and illustrates the sheer range of choices open to the business aviation community in terms of customer experience as well as location. With several of these second tier and specialist airports investing heavily in improving their business aviation offering, competition is becoming even more lively, and perhaps even more affordable. (Source: Flight Global, May 11, 2017)



CAE

Civil

- **Cargo traffic rose by 3.8% in FTK in 2016, encouraging compared to 2.3% rise in 2015:** Recent data from IATA notes an encouraging 3.8% increase in freight tonne kilometres (FTK), compared to a 2.3% increase in 2015 and the past decade's average annual growth of 2.6%. The strength coincided with an increase in the shipment of silicon materials for high-value consumer electronics. The overall increase in air cargo traffic can be accredited to the development of express/e-commerce operators – notably Amazon (with the launch of Amazon Prime Air), FedEx, DHL, and Chinese and European carriers. The air cargo market is forecasted to grow ~3.5% in 2017, a conservative estimate to reflect concerns around relatively flat global trade figures. (FlightGlobal, April 6, 2017)
- **FAA certifies first-ever TRU Boeing 737 MAX full-flight simulator:** FAA has certified the first-ever Boeing 737 MAX full-flight simulator (FSS), made by TRU Simulation & Training. The FSS was certified to FAA Level C standard, at which pilots can begin training; FAA is waiting for final aircraft data to become available to issue level D standard certification. As part of a 10-year exclusive agreement between Boeing and TRU (signed in 2014), TRU has delivered the first of several Boeing 737 MAX FFSs to Boeing's Miami training center, with training expected to begin this year. This announcement follows Boeing's order for two 737-9 FFS devices from TRU placed in April 2016, expected to be ready for training in 2019-2020. (AviationPros, April 6, 2017)

Military

- **US Air Force Chief of Staff noted the material pilot shortage in committee meeting:** At the House Armed Services subcommittee hosted in Washington D.C. on March 29, the Deputy Chief of Staff of the U.S. Air Force addressed the pilot shortage in service. At the end of fiscal year 2016, the total force, including those on active duty, reserve and guard, was short 1,555 pilots across all mission areas. Part of the effort to increase retention is raising the aviation bonus to \$35,000 a year, representing the first increase in 18 years. The Air Force is also exploring other options, including discussions with commercial airlines to allow commercial aviators to fly part time. In FQ3/17, CAE reported ~36% of revenues in the military segment, and ~47% of revenues in North America. (US Today, CAE, Mar 29, 2017)



The Landing Strip

Paris Air Show

When: June 19-23

Where: Paris, France

What: The International Paris Air Show at Le Bourget will open for its 52nd edition. This event, which began more than a century ago, is the world's oldest and largest aviation show. Since its inception, the Paris Air show has been at the centre of the development of the world aviation and space industry.

The Buzz: With over 2,000 exhibitors signed-up, expect all of the major aerospace and defense companies to be present and looking to make deals. Come join the RBC Global Aerospace and Defense team with a full week of events and exclusive access to the top management teams in the industry. If you are interested in attending, please contact your RBC sales representative.



Appendix 1: Airline Comparables

Symbol	17-May-17		EV/EBITDAR				EV/Sales				EBITDAR Margin				2018E	Net Debt to	
	Price		2015	2016	2017E	2018E	2015	2016	2017E	2018E	2015	2016	2017E	2018E	FCF yield	EBITDAR	
Discount Airlines																	
WestJet	WJA-CA	C\$	\$21.85	4.8x	5.0x	5.4x	4.9x	1.2x	1.2x	1.1x	1.0x	25%	24%	20%	21%	3.5%	1.9x
Southwest	LUV-US	US\$	\$57.04	6.8x	6.6x	6.6x	5.9x	1.8x	1.8x	1.7x	1.6x	27%	27%	26%	28%	7.5%	0.3x
JetBlue	JBLU-US	US\$	\$20.96	5.2x	4.6x	5.0x	4.7x	1.4x	1.4x	1.3x	1.2x	28%	31%	26%	26%	9.9%	1.1x
Discount Average				5.6x	5.5x	5.8x	5.1x	1.5x	1.5x	1.4x	1.3x	27%	27%	24%	25%	7.0%	0.7x
Mainline Airlines																	
Air Canada	AC-CA	C\$	\$16.05	4.6x	4.2x	4.6x	3.8x	0.8x	0.8x	0.8x	0.7x	18%	19%	17%	19%	11.1%	2.3x
Delta Air Lines	DAL-US	US\$	\$47.74	5.0x	4.9x	5.0x	4.8x	1.1x	1.1x	1.1x	1.0x	21%	22%	21%	21%	13.0%	0.9x
United Continental	UAL-US	US\$	\$76.18	4.6x	4.4x	5.0x	4.7x	1.0x	1.0x	1.0x	0.9x	21%	23%	20%	20%	10.9%	1.7x
American Airlines	AAL-US	US\$	\$44.92	4.8x	4.7x	5.4x	5.1x	1.1x	1.1x	1.0x	1.0x	22%	23%	19%	20%	14.8%	2.5x
Mainline Average				4.8x	4.5x	5.0x	4.5x	1.0x	1.0x	1.0x	0.9x	21%	22%	19%	20%	12.5%	1.7x
Regional Airlines																	
Chorus Aviation	CHR-CA	C\$	\$7.30	7.5x	7.3x	6.7x	6.2x	1.5x	1.8x	1.8x	1.8x	20%	25%	27%	28%	13.0%	4.0x
SkyWest Inc.	SKYW-US	US\$	\$33.90	5.5x	5.6x	5.1x	5.8x	2.0x	1.9x	1.9x	1.9x	36%	35%	38%	33%	18.8%	4.1x
Regional Average				6.5x	6.4x	5.9x	6.0x	1.7x	1.9x	1.9x	1.8x	28%	30%	32%	31%	15.9%	4.1x
Airline Average				5.4x	5.2x	5.4x	5.1x	1.3x	1.3x	1.3x	1.2x	24%	25%	24%	24%	11.4%	2.1x

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at the close on May 17, 2017



Appendix 2: Aerospace Comparables

Company	Exch: Ticker	17-May Price	CY EPS ⁽¹⁾				CY PER				CY EV/EBITDA ⁽¹⁾				Mkt Cap B	
			2015	2016	2017E	2018E	2015	2016	2017E	2018E	2015	2016	2017E	2018E		
Aerospace																
Boeing**	NYSE:BA	US\$	\$178.78	\$7.72	\$7.24	\$9.37	\$10.26	23.7x	25.3x	19.6x	17.9x	11.9x	14.6x	10.1x	9.5x	\$107.9
Embraer*	NYSE: ERJ	US\$	\$19.11	\$1.48	\$1.58	\$1.43	\$1.47	13.7x	12.8x	14.2x	13.8x	6.1x	5.5x	5.6x	5.4x	\$3.5
General Dynamics**	NYSE: GD	US\$	\$192.01	\$9.08	\$8.64	\$9.80	\$10.54	21.5x	22.6x	20.0x	18.6x	13.0x	14.5x	12.9x	12.2x	\$57.9
Textron	NYSE: TXT	US\$	\$46.19	\$2.50	\$2.62	\$2.52	\$2.99	19.2x	18.4x	19.0x	16.1x	10.3x	10.3x	10.4x	9.1x	\$12.4
Average								19.5x	19.8x	18.2x	16.6x	10.3x	11.2x	9.7x	9.0x	
Transportation & Conglomerates																
Siemens	XE: SIE	EUR	129.30	6.17	6.93	8.09	8.61	21.0x	18.7x	16.0x	15.0x	15.1x	13.4x	11.6x	10.9x	\$109.9
General Electric	NYSE: GE	US\$	\$27.41	\$1.31	\$1.49	\$1.63	\$1.89	20.9x	18.4x	16.8x	14.5x	16.4x	18.1x	15.7x	14.6x	\$238.7
United Technologies	NYSE: UTX	US\$	\$119.58	\$6.30	\$6.61	\$6.58	\$7.05	19.0x	18.1x	18.2x	17.0x	10.2x	10.7x	10.5x	10.2x	\$95.8
Average								20.3x	18.4x	17.0x	15.5x	13.9x	14.0x	12.6x	11.9x	
Aerospace Multiples								19.5x	19.8x	18.2x	16.6x	10.3x	11.2x	9.7x	9.0x	
Transportation Multiples (ex. GE, UTX)								21.0x	18.7x	16.0x	15.0x	15.1x	13.4x	11.6x	10.9x	
Average								20.3x	19.2x	17.1x	15.8x	12.7x	12.3x	10.7x	10.0x	
Bombardier	TSX: BBD.B	C\$	\$2.07	\$0.16	-\$0.15	-\$0.03	\$0.11	9.4x	nmf	nmf	14.0x	9.7x	12.1x	10.2x	6.8x	\$4.6

* Covered by RBC Dominion Securities, Industrials analyst Derek Spronck

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

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

Sources: Company reports, FactSet, and RBC Capital Markets estimates. Priced at the close on May 17, 2017



Companies mentioned

Air Canada (TSX: AC CN; C\$16.05; Top Pick; Speculative Risk)
 Bombardier Inc. (TSX: BBD.B.TO; C\$2.07; Outperform; Speculative Risk)
 CAE Inc. (TSX: CAE.TO; C\$21.07; Sector Perform)
 Chorus Aviation Inc. (TSX: CHR.TO; C\$7.30; Outperform)
 Embraer S.A. (NYSE: ERJ; \$19.11; Sector Perform)
 WestJet Airlines Ltd. (TSX: WJA.TO; C\$21.85; Sector Perform)

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			Count	Percent
BUY [Top Pick & Outperform]	843	51.94	285	33.81
HOLD [Sector Perform]	679	41.84	149	21.94
SELL [Underperform]	101	6.22	8	7.92

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