



January 18, 2018

RBC Flight Deck

Fuel concerns weigh on sentiment; opening up another buying opportunity

Share prices under pressure; focus instead on fundamentals. With the recent increase in oil prices, the Canadian airlines have seen share price pressure as investors have anticipated downward earnings revisions. Key, however, is that fundamentals remain very robust, with WestJet reporting very healthy traffic numbers and our Fare Survey indicating that Air Canada has been very successful in passing on higher fuel prices with higher fares. Since we were below the Street on our estimates, our changes are modest and as a result we advise investors to be opportunistic with regard to the share weakness.

Fare Survey results a positive for AC. Our proprietary Fare Survey tracks price changes on select routes to gauge the direction and magnitude of fare prices in the quarter. Based on the data, it appears that AC pricing has seen a substantial leg up, with fares 7% higher than the prior year. This is one of the highest increases we have seen since we started this index in 2012 and suggests that AC is successfully passing on the higher fuel price. For WestJet, we are seeing lower fares, at -2.3%, possibly as a result of the higher domestic capacity it has brought on; however, as we outline below, the strong traffic trends suggest that higher pricing will likely follow. We have built these trends into our revised estimates for Q4/17.

WestJet traffic very robust. As noted, WestJet reported traffic numbers that were strong once again for December and capped off a Q4 that saw traffic up 9.8% on the quarter, well in excess of the 6% in capacity. We see this as a positive, certainly for WJA and for the Canadian airline space in general.

Q4 preview. We are making modest changes to our estimates (see pages 4 and 6), which were negatively impacted by the move in fuel, offset by the expectation for higher yields. For AC, we are in fact maintaining our Q4 EBITDAR estimate of \$466 MM, as yields seemed to be a larger offset (and we were already below consensus, which has declined to \$498MM). For WJA, we lower our Q4 EBITDAR to \$211MM, which is below consensus of \$228MM. We also reduce our price target to \$28 from \$30. Overall, we are much less concerned about higher fuel prices and much more encouraged by strong traffic trends; as a result, we recommend that investors take advantage of the share weakness, as valuations remain attractive both on an absolute basis and relative to U.S. peers.

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.



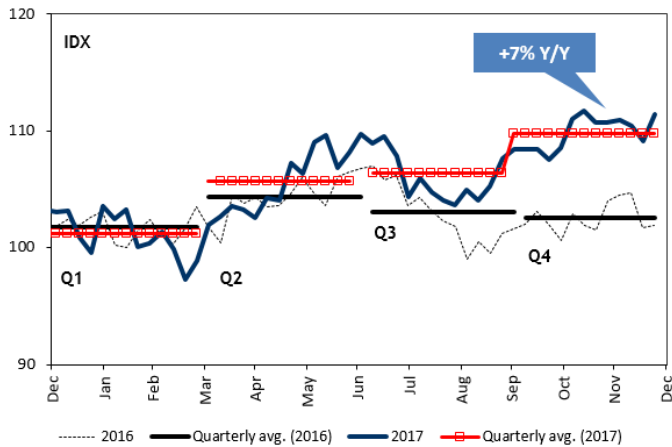
Canadian Airlines Q4/17 preview

Fare prices remain firm in the fourth quarter

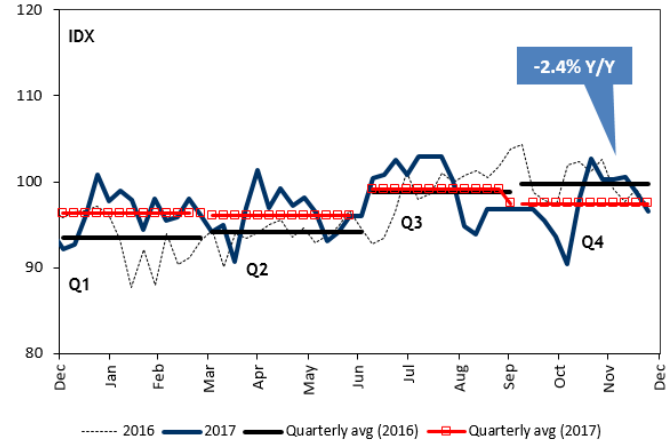
As tracked by the RBC Fare Survey, we saw a bit of a divergence between WestJet and Air Canada, with Air Canada driving higher fares and WestJet seeing declines on the routes we monitor. The fares we track at Air Canada increased meaningfully in December on both a M/M and Y/Y basis, and the +7.0% Y/Y growth is the third consecutive quarter the airline has posted positive annual growth. After adjusting down by 250bp for stage length changes, it implies a yield increase of +4.5% Y/Y. Fares at WestJet rebounded early in the quarter but lost momentum in December, with the RBC Fare Survey picking up negative fare growth of -2.3% M/M. However, the -2.4% Y/Y is a slight improvement from the -3% Y/Y recorded in November. After adjusting down by 50bp to account for mix, it implies a negative yield of -2.9% Y/Y.

Exhibit 1: Fares were higher Y/Y in Q4 on top of strong traffic levels

RBC Fare Tracker – Air Canada



RBC Fare Tracker – WestJet



Source: Air Canada, WestJet, RBC Capital Markets estimates

Strong traffic volumes during holiday season

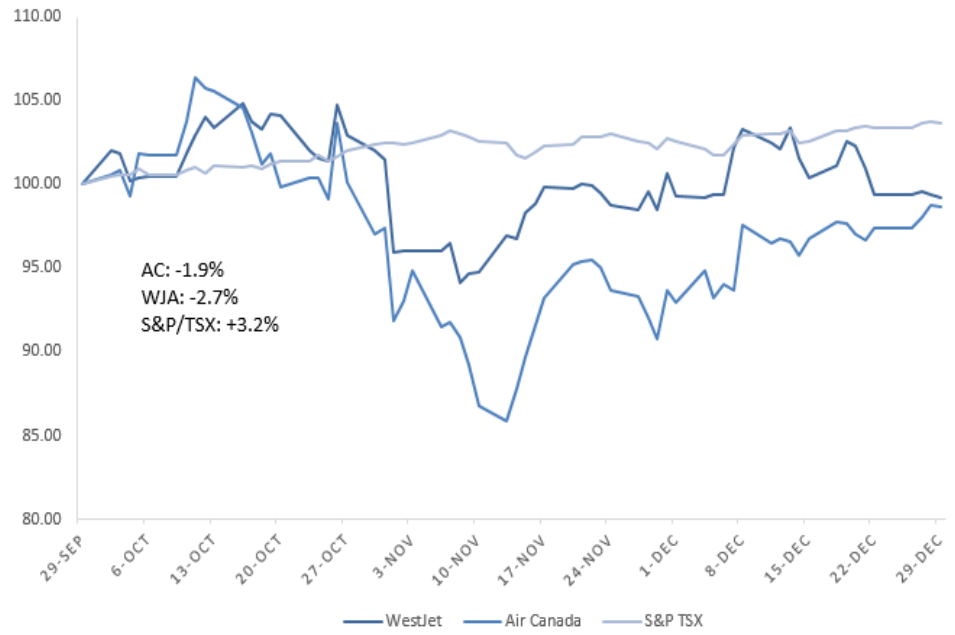
Preliminary data suggests that Canadian airlines managed strong traffic growth well. WestJet's traffic statistics showed traffic rose an impressive 9.8%, with the airline recording a record number of passengers. In addition, capacity rose at a slower pace (6% on the quarter), leading to strong load factor numbers, which were up 280 bps in Q4/17 compared to the same period last year.

Q4 preview

We are adjusting our estimates for the airlines as a result of fuel prices, fare trends, and reported traffic and capacity data. Details are in the company tear sheets that follow.



Exhibit 2: After a strong Q3, Airlines underperformed the TSX in Q4



Source: Factset, RBC Capital Markets



Air Canada (TSX: AC)

Outperform, Speculative Risk; \$31 Price Target

SUMMARY

Market price:	\$27.76	52-Wk High:	\$28.70
Yield (12-mth):	0.0%	52-Wk Low:	\$11.60
Total est. return:	12%	Mkt Cap (MM):	\$7,690
Shares O/S (MM):	277.0	Net Debt (MM):	\$6,393
Float (MM):	\$7,690	EV (MM):	\$14,083

CONFERENCE CALL DETAILS

- Friday, February 16, at 9:00AM ET
- 1-800-478-9326

Share price weakness. Air Canada’s stock has weakened significantly from the \$26 level at the start of the year and since the October high of just under \$29. The key driver appears to have been the rising price of fuel over that time period. Having said that, we do not consider fluctuations in fuel to be a meaningful driver of value, and we note that the shares remain very attractive relative to peers.

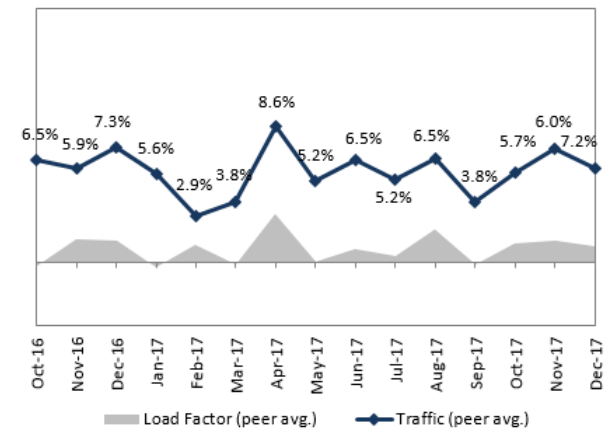
Q4/17 set-up. We have updated for fuel costs; however, we have also offset this by a stronger traffic assumptions and a higher yield (as per our Fare Survey). Moreover, our prior estimate was a Street low and therefore our adjustments are less significant. Our Q4/17 EBITDAR estimate remains unchanged at \$466MM (consensus has declined to \$498MM). Our full-year 2018 trends lower due to fuel, but we have yields come up to offset such that our 2019 remains unchanged.

AC remains a top idea. While we reduced our rating in October from Top Pick to Outperform, we believe the recent share price weakness represents a very attractive (re-) entry point given the continued discount relative to peers, which we believe is unwarranted. We maintain our Outperform rating and \$31 price target.

STOCK SET-UP

Q4/17 performance	
Absolute	-1.9%
vs. S&P/TSX	-511 bps
Short Interest (Days to Cover)	
Current	5.1
3-Month Average	3.4
Analyst Sentiment	
Outperform	72%
Sector Perform	28%
Underperform	0%

TRAFFIC DATA



	Q4/17E	Y/Y	2017E NEW	Y/Y	2018E NEW	Y/Y	2019E NEW
Traffic: RPMs (% chg)	6.5%	-1239bp	10.5%	-270bp	5.5%	-503bp	2.5%
Capacity: ASMs (% chg)	7.0%	-1392bp	11.0%	-365bp	6.0%	-502bp	3.0%
Load Factor (%pts)	79.5%	-600bp	82.1%	-36bp	81.7%	-39bp	81.3%
Yield (% chg)	1.0%	799bp	-1.4%	503bp	3.0%	438bp	1.1%
RASM (% chg)	0.5%	912bp	-2.0%	563bp	1.0%	308bp	0.6%
Adj. CASM ex fuel+other (% chg)	-0.7%	510bp	-3.0%	8bp	-1.4%	158bp	-0.2%
Avg Jet Fuel Price: (\$/Ltr)	\$0.64	23.3%	\$0.62	14.6%	\$0.69	11.4%	\$0.67
Revenue	3,646	-18.1%	16,078	9.5%	17,146	6.6%	17,736
Expenses	3,180	-0.7%	13,212	10.9%	14,093	6.7%	14,366
EBITDAR	466	-62.7%	2,866	3.5%	3,053	6.5%	3,370
EPS ex-one time items (\$)	0.35		3.99		2.26		2.45
Consensus EBITDAR	1,397		2,939		3,236		3,429

Source: Company reports, RBC CM estimates

Source: Bloomberg, Thomson ONE, RBC Capital Markets estimates, Company reports

Priced as of market close January 16, 2018



Chorus Aviation (TSX: CHR)

Outperform; \$11 Price Target

SUMMARY

Ticker:	CHR-ca	Rating:	Outperform
Exchange:	TSX	Target price:	\$11.00
Market price:	\$9.65	52-Wk High:	\$9.20
Yield (12-mth):	5.0%	52-Wk Low:	\$6.00
Total est. return:	19%	Mkt Cap (MM)	\$1,230
Shares O/S (MM)	127.5	Net Debt (MM)	\$1,523
Float (MM):	\$1,230	EV (MM):	\$2,754

STOCK SET-UP

Q4/17 performance	
Absolute	13.3%
vs. S&P/TSX	1005 bps
Short Interest (Days to Cover)	
Current	1.5
3-Month Average	1.7
Analyst Sentiment	
Outperform	88%
Sector Perform	13%
Underperform	13%

CONFERENCE CALL DETAILS

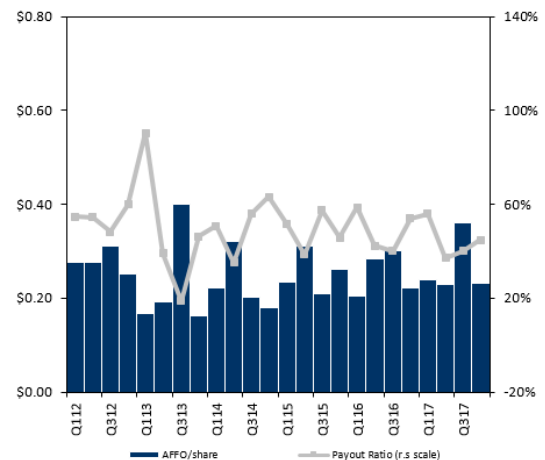
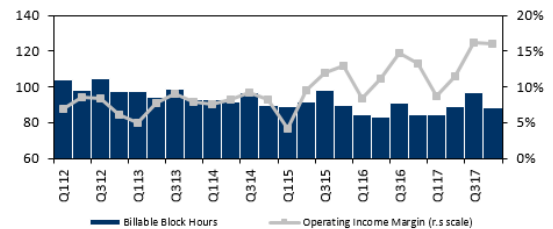
- Wednesday, February 15, at 9:00AM ET
- 1-888-231-8191

Q4/17 set-up. From a quarterly perspective, we do not see much in the way of EBITDAR variability. For the quarter, we forecast EBITDAR of \$106MM, in line with consensus of \$101MM.

Progress on leasing subsidiary. Chorus's leasing portfolio had grown to 17 aircraft by the end of Q2, and the company noted that it expects to complete two addition acquisitions. We will be looking for management's commentary on the deployment of the remaining capital under the \$200M private placement.

Maintaining Outperform. The stability of cash flows under the CPA presents an attractive yield, while Chorus's venture into aircraft leasing provides for a good platform. Accordingly, we still believe the stock presents an attractive risk-adjusted return profile. We maintain our Outperform rating and \$11 price target.

OPERATING METRICS



	Q4/17E	Y/Y	2017E	Y/Y	2018E	Y/Y	2019E	Y/Y
Revenue breakdown								
Controllable Revenue	200	1.7%	765	2.1%	790	3.2%	802	1.6%
Leasing under CPA	25	-4.2%	111	11.8%	98	-11.1%	98	-0.1%
Margin compensation	28	0.9%	111	0.9%	112	0.3%	112	0.0%
Incentives	4	-25.7%	14	-35.3%	14	-0.1%	14	0.0%
Pass through revenue	70	-1.3%	275	1.4%	275	-0.1%	283	3.0%
Passenger revenue	326	0.1%	1,277	2.0%	1,289	1.0%	1,310	1.6%
Other revenue	18	199.3%	65	159.8%	87	34.0%	116	33.0%
Total Revenues	343	3.7%	1,342	5.1%	1,376	2.6%	1,426	3.6%
Total Expenses	288	2.0%	1,165	3.5%	1,141	-2.0%	1,166	2.2%
EBITDAR	106	15.1%	376	16.0%	430	14.4%	453	5.4%
<i>Consensus EBITDAR</i>	<i>101</i>		<i>371</i>		<i>423</i>		<i>479</i>	

Source: Bloomberg, Thomson ONE, RBC Capital Markets estimates, Company reports

Priced as of market close January 16, 2018



WestJet (TSX: WJA)

SUMMARY

Market price:	\$26.40	52-Wk High:	\$28.00
Yield (12-mth):	2.2%	52-Wk Low:	\$21.03
Total est. return:	8%	Mkt Cap (MM):	\$3,094
Shares O/S (MM):	117.2	Net Debt (MM):	\$1,176
Float (MM):	\$3,036	EV (MM):	\$4,270

CONFERENCE CALL DETAILS

- Tuesday, February 6, at 10AM ET

Q4/17 set-up. We have updated our estimates for fuel prices, the negative effect of which was offset to a certain degree by better demand. Accordingly, our Q4/17 estimate declines to \$211MM (from \$215MM) and is below consensus of \$228MM. Likewise, our 2018 and 2019 fuel prices increase as well; however, based on our Fare Survey, we do not anticipate as strong a pick-up in yields. As a result, we reduce our estimates 2018 and 2019, which are now below consensus (see table below).

Focus of the call. The company did a very good job of articulating its long-term growth strategy during its December 6th investor day. Accordingly, we expect the call to focus on more near-term drivers, notably: 1) recent trends in demand and the drivers of the strong traffic levels; and 2) fare pricing offsets to rising fuel prices.

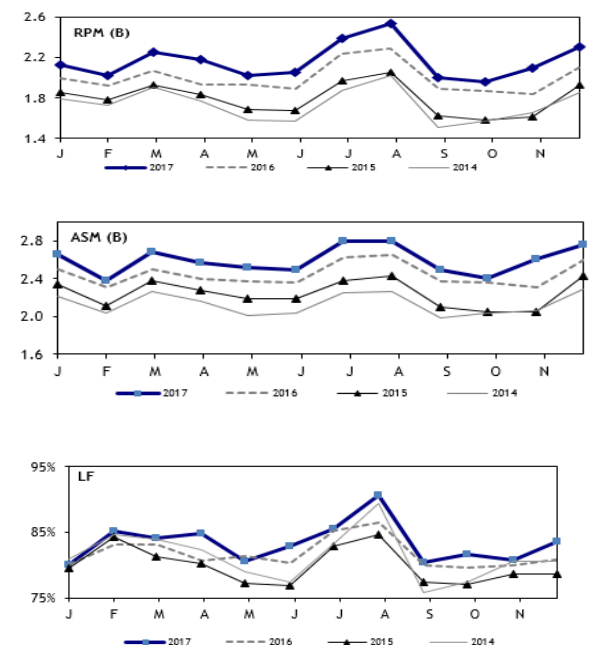
Maintaining Sector Perform. Overall, we believe there is a growing acceptance by the investment community of the company's longer-term growth strategy, and the comfort that this growth into international markets will not be overly disruptive from a competitive standpoint. The key area of concern is the cost and capital outlay requirements, which we believe keeps investors on the sidelines (for now). We maintain our Sector Perform rating and lower our price target to \$28 from \$30 to account for higher fuel prices.

Sector Perform; \$28 PT (from \$30)

STOCK SET-UP

Q4/17 performance	
Absolute	-2.7%
vs. S&P/TSX	-594 bps
Short Interest (Days to Cover)	
Current	2.7
3-Month Average	3.1
Analyst Sentiment	
Outperform	21%
Sector Perform	63%
Underperform	16%

TRAFFIC DATA



	RBC CM Q4/17			RBC CM 2017E			RBC CM 2018E			RBC CM 2019E		
	Old	New	Var	Old	New	Var	Old	New	Var	Old	New	Var
Traffic: RPMs (% chg)	6.0%	8.8%	282bp	7.4%	8.1%	68bp	7.5%	7.0%	-50bp	7.5%	7.5%	0bp
Capacity: ASMs (% chg)	6.0%	5.6%	-40bp	5.9%	5.8%	-10bp	7.5%	7.5%	0bp	8.0%	8.0%	0bp
Load Factor (%pts)	0.0%	2.4%	245bp	1.2%	1.8%	61bp	0.0%	-0.4%	-39bp	-0.4%	-0.4%	0bp
Yield (% chg)	2.5%	-1.0%	-350bp	1.4%	0.6%	-85bp	2.4%	3.0%	60bp	0.0%	1.0%	100bp
RASM (% chg)	2.5%	2.0%	-46bp	2.9%	2.7%	-11bp	2.4%	2.5%	12bp	-0.5%	0.5%	100bp
Adj. CASM ex fuel+other items (% chg)	3.9%	3.9%	8bp	1.5%	1.5%	2bp	1.2%	1.2%	2bp	1.7%	1.1%	-59bp
Avg Jet Fuel Price (\$/Ltr)	0.64	0.63	-1.3%	0.63	0.63	-0.4%	0.64	0.67	4.5%	0.64	0.66	3.8%
Revenue	1,106	1,096	-0.8%	4,491	4,481	-0.2%	4,943	4,938	-0.1%	5,314	5,362	0.9%
Expenses	891	885	-0.7%	3,493	3,487	-0.2%	3,842	3,897	1.4%	4,187	4,205	0.4%
EBITDAR	215	211	-1.6%	998	995	-0.3%	1,100	1,042	-5.3%	1,127	1,157	2.7%

Source: Bloomberg, Thomson ONE, RBC Capital Markets estimates, Company reports

Priced as of market close January 16, 2018



Air Buzz

As part of the 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

- **EgyptAir finalises the first firm CSeries order in 18 months.** North African carrier EgyptAir has firmed an agreement to order 12 Bombardier CS300s and take purchase rights on a further 12, the Canadian manufacturer has disclosed. This converts a letter of intent announced during the Dubai air show in November. The order gives the CSeries its first confirmed new customer since June 2016, when Air Canada finalised an order for 45 CS300s. (Source: Flight Global, December 29)
- **Aeromexico Weighs Bombardier C Series Order.** Grupo Aeromexico is considering an order of Bombardier C Series jets, taking aircraft that would be available next year if U.S. tariffs thwart deliveries to Delta Air Lines, people familiar with the matter said. Landing Aeromexico as a customer would be a boon to Bombardier, which has struggled to find buyers for its marquee jetliner. A deal would also help the Canadian planemaker fill gaps in its production schedule after the Trump Administration imposed 300 percent tariffs on the C Series in a trade case initiated by Boeing. (Source: Bloomberg, December 26).
- **Delta, Bombardier renegotiating delivery clause in CS100 deal.** Delta Air Lines has asked Bombardier to guarantee that all 75 CS100s ordered in April 2016 will be assembled in Mobile, Alabama, instead of Canada, a top airline executive says. The requests put further pressure on Bombardier's plan to open a second final assembly line in Mobile after consummating a deal with Airbus to take a majority ownership stake in the CSeries programme. (Source: Flight Global, December 18)

Regional jets

- **Customer orders up to twelve Bombardier CRJ900 Aircraft.** A customer has signed an order to acquire six CRJ900 Aircraft on a firm order, with an option on six more CRJ900 regional jets. Based on the list price, firm orders would be valued at approximately \$290 million. (Source: Reuters, December 29)
- **Embraer and Boeing confirm merger talks.** Boeing and Embraer have confirmed they are in talks for a "potential combination," following a Wall Street Journal report that Boeing is in discussions to take over the Brazilian airframer. A deal with Embraer would give Boeing a new presence in the regional jet market, following Airbus's plan announced in October to acquire a majority stake in the Bombardier CSeries programme. (Source: Flight Global, December 21).

Business jets

- **Bombardier shifts focus to new business jet as C Series fades.** Bombardier Inc. predicted that growth in its corporate-jet unit will help offset lost revenue from handing the keys of its marquee commercial-aircraft program to Airbus SE. Business-aircraft revenue could increase 70 percent in the next three years, Bombardier said in a statement. The new outlook signals how Bombardier's fortunes will depend on a smooth introduction of the Global 7000 business jet, which is due to enter service about a year from now. (Source: Bloomberg, December 14)

CAE

Civil

- **Airbus acquires Colorado flight training center.** In an effort to expand its aviation training presence in the US, Airbus acquired the Strategic Simulation Solutions flight training center in Aurora, Colorado. Airbus plans to at least double the capacity at the facility in the next few years. Worldwide, Airbus expanded its training network from five locations in 2015 to 17 locations today based around the Americas, with centers in US, Mexico, and Brazil. The training center primarily supports Frontier Airlines and currently has two A320 FAA Level D full flight simulators. (Airbus, January 4)

Exhibit 3: A320 full flight simulator



Source: Halldale

Military

- **CAE USA won contract to provide Abrams tank engine trainings for the US Army.** CAE USA has been awarded a contract from the US Army to provide Abrams M1A2 tank engine trainers. Under the terms of the contract, CAE will develop two tank driver stations with live engine maintenance trainers to help troubleshoot maintenance-training tasks. The contract also includes options to deliver nine additional trainers to be based in Idaho. The maintenance-training devices will be delivered to Georgia in 2019. (CAE, January 9)
- **US and EU collaborate and expand on aviation safety efforts.** The US and the European Union have signed amendments to two US-EU agreements arranged to expand joint efforts on aviation safety and air traffic management. The amendment enables the US Federal Aviation Administration (FAA) and the EU to finalize arrangements to approve flight-simulator training devices and pilot licensing across the two regions. It also allows for more collaboration in aircraft operations and overseeing air traffic safety. The FAA and EU hope to reduce duplicated financial and human resources, and further integrate air traffic technologies and procedures in the Air Force. (FlightGlobal, January 3)



The Landing Strip

World Passenger Symposium

When: October 24–26

Where: Barcelona, Spain

What: The International Air Transport Association hosts an event that brings together more than 700 industry stakeholders from across the aviation supply chain to discuss ways to maximize the customer experience.

The Buzz: Industry stakeholders from around the world will provide insight about successful initiatives. Speakers include the CEO of Dubai Airports and the CIO of Heathrow Airport. Topics discussed will range from customized travel experiences to advanced passenger processing.



Valuation and risks to rating and price target

Air Canada

Our \$31 price target is based on a 4.5x EV/EBITDAR multiple applied to our 2019 estimates, which is 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 our rating and price target include 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

Our \$11 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. Our \$11 price target is the basis of our Outperform rating.

Risks to our price target and rating include: 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

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 our rating and price target include 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.



Appendix 1: Airline Comparables

Symbol	16-Jan-18		EV/EBITDAR				EV/Sales				EBITDAR Margin				Net Debt to EBITDAR	
	Price		2016	2017E	2018E	2019E	2016	2017E	2018E	2019E	2016	2017E	2018E	2019E		
Discount Airlines																
WestJet	WJA-CA	C\$	\$25.34	5.5x	5.3x	4.8x	4.4x	1.3x	1.2x	1.1x	1.0x	24%	22%	22%	22%	2.1x
Southwest	LUV-US	US\$	\$66.07	7.6x	8.3x	7.4x	6.9x	2.0x	2.0x	1.9x	1.8x	27%	24%	25%	26%	0.5x
JetBlue	JBLU-US	US\$	\$22.45	4.9x	5.7x	5.8x	5.3x	1.5x	1.4x	1.3x	1.2x	30%	24%	22%	22%	1.5x
Discount Average				6.0x	6.4x	6.0x	5.6x	1.6x	1.5x	1.4x	1.3x	27%	23%	23%	23%	1.0x
Mainline Airlines																
Air Canada	AC-CA	C\$	\$22.91	4.7x	4.5x	4.1x	3.8x	0.9x	0.8x	0.8x	0.7x	19%	18%	19%	19%	2.0x
Delta Air Lines	DAL-US	US\$	\$59.72	5.8x	5.9x	5.8x	5.6x	1.3x	1.2x	1.2x	1.1x	22%	21%	20%	20%	0.9x
United Continental	UAL-US	US\$	\$76.58	4.9x	5.8x	6.0x	5.7x	1.0x	1.0x	0.9x	0.9x	21%	17%	16%	16%	2.4x
American Airlines	AAL-US	US\$	\$58.16	6.2x	7.2x	7.4x	6.9x	1.3x	1.2x	1.1x	1.1x	20%	17%	15%	16%	3.3x
Mainline Average				5.4x	5.9x	5.8x	5.5x	1.1x	1.1x	1.0x	1.0x	20%	18%	18%	18%	2.2x
Regional Airlines																
Chorus Aviation	CHR-CA	C\$	\$9.65	9.7x	8.4x	7.3x	7.0x	2.5x	2.3x	2.3x	2.2x	25%	28%	31%	32%	4.7x
SkyWest Inc.	SKYW-US	US\$	\$54.00	6.7x	5.9x	6.8x	6.8x	2.3x	2.2x	2.2x	2.1x	34%	38%	32%	31%	4.1x
Regional Average				8.2x	7.1x	7.1x	6.9x	2.4x	2.3x	2.2x	2.2x	29%	33%	32%	32%	4.4x
Airline Average				6.2x	6.3x	6.2x	5.8x	1.6x	1.5x	1.4x	1.4x	25%	23%	23%	23%	2.4x

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at market close on January 16, 2018



WESTJET (TSX: WJA)

FY Dec. 31 (\$MM's)	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
Traffic (RPMs in MM)	23,967	6,393	6,260	6,922	6,329	25,904	6,841	6,697	7,407	6,772	27,716	7,354	7,199	7,962	7,280	29,795
% change	11.3%	6.8%	8.9%	7.9%	8.8%	8.1%	7.0%	7.0%	7.0%	7.0%	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	8,276	8,131	8,682	8,233	33,323	8,939	8,782	9,376	8,892	35,989
% change	8.9%	5.5%	6.3%	5.8%	5.6%	5.8%	7.5%	7.5%	7.5%	7.5%	7.5%	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%	82.7%	82.4%	85.3%	82.3%	83.2%	82.3%	82.0%	84.9%	81.9%	82.8%
change (%pts)	1.8%	0.9%	2.0%	1.7%	2.4%	1.8%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%
Yield (cents per RPM)	17.20	17.43	16.85	17.56	17.33	17.30	17.95	17.36	18.09	17.84	17.82	18.13	17.53	18.27	18.02	18.00
% change	-8.1%	1.2%	2.1%	0.2%	-1.0%	0.6%	3.0%	3.0%	3.0%	3.0%	3.0%	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	14.3	14.5	14.8	14.3	15.4	14.7	14.8	14.9	14.4	15.5	14.8	14.9
CASM (excl. fuel) (cents)	10.0	10.4	9.9	9.6	10.4	10.1	10.5	10.0	10.0	10.4	10.2	10.6	10.1	10.1	10.5	10.4
Total Revenues	4,122.9	1,114.3	1,055.0	1,215.6	1,096.5	4,481.4	1,228.1	1,162.3	1,339.6	1,208.5	4,938.4	1,333.4	1,262.0	1,454.5	1,312.1	5,361.9
% change	2.3%	8.0%	11.1%	8.1%	7.7%	8.7%	10.2%	10.2%	10.2%	10.2%	10.2%	8.6%	8.6%	8.6%	8.6%	8.6%
Airport Operations	581.9	168.9	154.5	127.1	158.7	609.3	178.3	159.7	131.5	170.6	640.1	192.5	172.5	142.0	184.3	691.3
% change	4%	6%	6%	6%	2%	5%	6%	3%	3%	8%	5%	8%	8%	8%	8%	8%
Aircraft Fuel	765.9	235.5	224.9	238.0	226.1	924.5	278.0	268.6	283.4	259.3	1089.4	293.2	281.4	297.6	273.5	1145.7
% change	-6%	42%	23%	15%	7%	21%	18%	19%	19%	15%	18%	5%	5%	5%	5%	5%
Maintenance	231.5	62.0	56.7	65.7	58.2	242.6	65.4	58.6	68.0	62.6	254.6	70.6	63.3	73.4	67.6	274.9
% change	1%	6%	6%	6%	2%	5%	6%	3%	3%	8%	5%	8%	8%	8%	8%	8%
Sales & Distribution	442.7	114.4	109.6	127.1	112.6	463.9	120.8	113.4	131.5	121.1	486.7	130.4	122.4	142.0	130.8	525.6
% change	16%	6%	6%	6%	2%	5%	6%	3%	3%	7%	5%	8%	8%	8%	8%	8%
Marketing, General & Administrative	243.2	64.3	59.8	69.3	61.4	254.9	67.9	61.8	71.7	66.1	267.4	73.3	66.8	77.4	71.3	288.8
% change	5%	6%	6%	6%	2%	5%	6%	3%	3%	8%	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	158.7	144.3	167.3	154.1	624.4	171.4	155.8	180.7	166.5	674.4
% change	14%	6%	6%	6%	2%	5%	6%	3%	3%	8%	5%	8%	8%	8%	8%	8%
In-Flight	232.1	62.1	56.8	65.9	58.4	243.2	65.6	58.7	68.1	62.8	255.2	70.8	63.4	73.6	67.8	275.6
% change	12%	6%	6%	6%	2%	5%	6%	3%	3%	8%	5%	8%	8%	8%	8%	8%
Employee Profit Sharing	59.3	7.0	7.8	27.6	11.0	53.4	18.4	17.4	20.1	18.1	74.1	20.0	18.9	21.8	19.7	80.4
% change	-41%	-69%	-751%	-13%	70%	-10%	162%	125%	-27%	65%	39%	9%	9%	9%	9%	9%
EBITDAR (after profit sharing)	969.0	223.0	217.9	342.4	211.4	994.8	231.4	221.4	347.4	241.5	1,041.7	257.3	247.8	384.5	267.7	1,157.3
% of sales	23.5%	20.0%	20.7%	28.2%	19.3%	22.2%	18.8%	19.0%	25.9%	20.0%	21.1%	19.3%	19.6%	26.4%	20.4%	21.6%
EPS F.D.	2.45	0.41	0.41	1.18	0.38	2.37	0.40	0.41	1.10	0.49	2.40	0.46	0.48	1.23	0.56	2.73

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%
Chorus Aviation Income Statement (\$MM)																	
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%	7%	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



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
Total Revenues	14,677	3,642	3,910	4,880	3,646	16,078	3,888	4,162	5,191	3,905	17,146	4,019	4,306	5,372	4,039	17,736	18,334
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 l	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%
Total Operating Costs	11,420	3,044	3,137	3,419	3,070	12,670	3,262	3,363	3,665	3,244	13,534	3,331	3,427	3,751	3,282	13,791	14,090
EBITDAR	2,768	342	670	1,388	466	2,866	362	693	1,450	548	3,053	416	770	1,543	641	3,370	3,651
% 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%
EPS (F.D) (\$ (Exc. Special charges)	\$ 4.11	\$ (0.32)	\$ 0.78	\$ 3.43	\$ 0.10	\$ 3.99	\$ (0.22)	\$ 0.56	\$ 2.26	\$ 0.27	\$ 2.86	\$ (0.12)	\$ 0.72	\$ 2.45	\$ 0.49	\$ 3.55	\$ 4.17

Source: RBC CM estimates, Company reports



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Ratings

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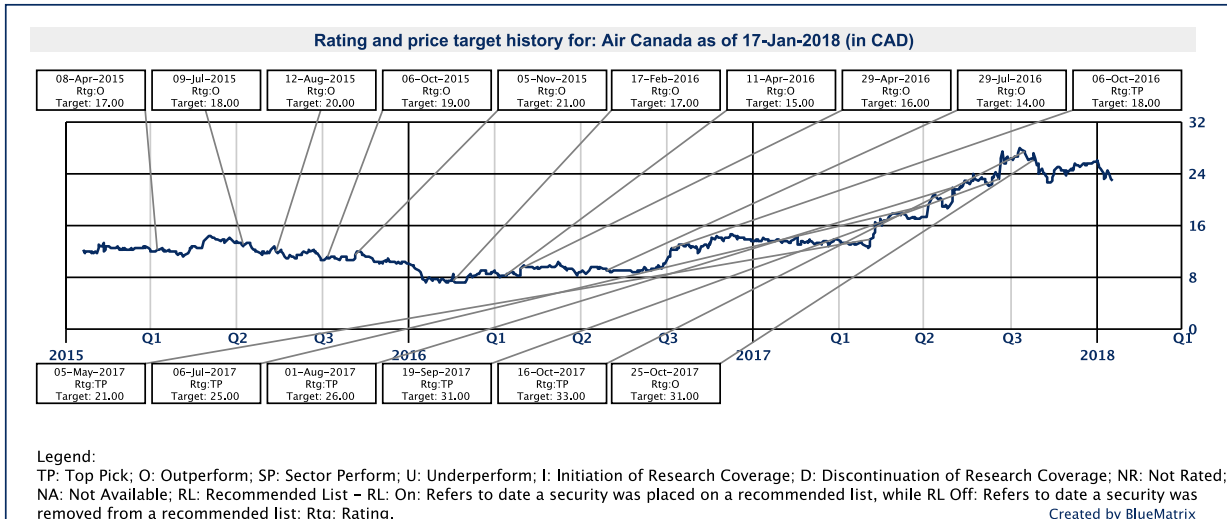
Risk Rating

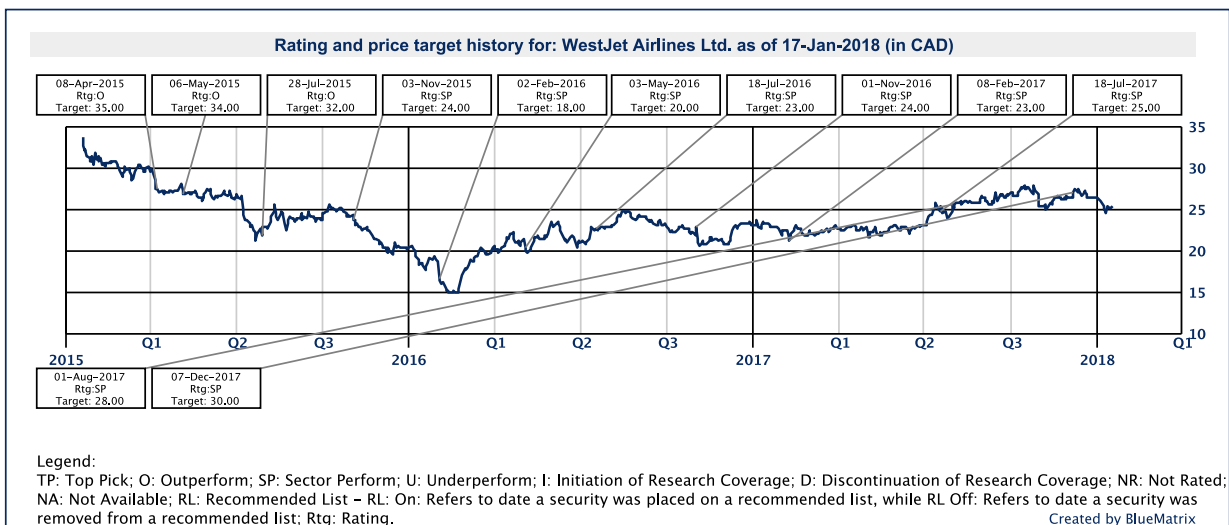
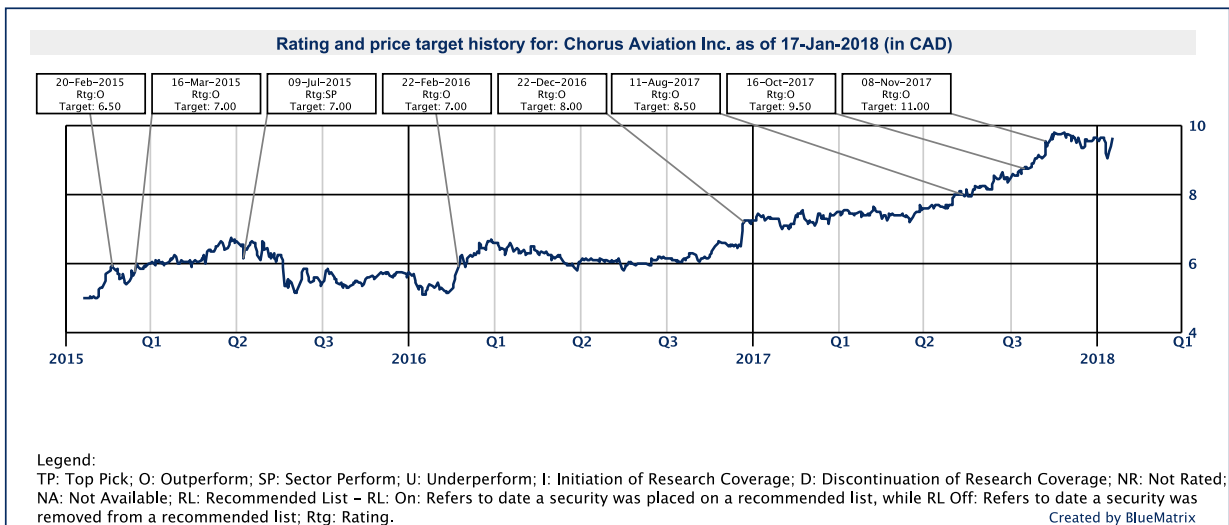
As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

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Distribution of ratings				
RBC Capital Markets, Equity Research				
As of 31-Dec-2017				
Rating	Count	Percent	Investment Banking	
			Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	868	52.42	281	32.37
HOLD [Sector Perform]	683	41.24	155	22.69
SELL [Underperform]	105	6.34	8	7.62





References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12), and former lists called the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Midcap 111 (RL 9), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsightresearch.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.



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 \$30 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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