



May 10, 2018

Flight Deck - April 2018

Fare price growth could soon 'take-off'

RBC Fare Survey points to lower prices sequentially, up year/year. Our proprietary Fare Survey tracks price changes on selected routes to gauge the direction and magnitude of fare prices in the month. Based on these data, overall fare prices declined in April compared to last month, but both Air Canada and WestJet are still showing solid year-over-year fare price gains. AC fares are 6.9% higher than last year, and this comes on top of a very strong 2017. WestJet fares rose 10.1% year-over-year, albeit off a particularly weak quarter in 2017.

Expect upcoming fare price growth. Based on management commentary from Q1 results, we expect to see a rise in fare prices over the next few quarters. To combat the rising level of costs, WestJet has already implemented three successive fare increases, and spoke about plans to experiment with 'peak summer' pricing, especially on long weekends. Given the CASM guidance increase and with fuel prices higher, we see it as very likely that fare price increases will be needed in the near-term. We believe WJA won't have an issue increasing fares, given the likely desire by Air Canada to do the same.

Focus on Premium: Air Canada is hoping to capture more volume of high yielding traffic with the introduction of their Signature Service in the second quarter. Similarly, WestJet is growing their premium offering by re-configuring their premium cabin, and hopes to realize revenues from premium of \$300MM annualized by 2022. It will be a fine balancing act for both airlines - selling more premium tickets, in a higher fare environment, as fuel prices rise. We will be closely monitoring the market to see any signs of price sensitivity. Stay tuned.

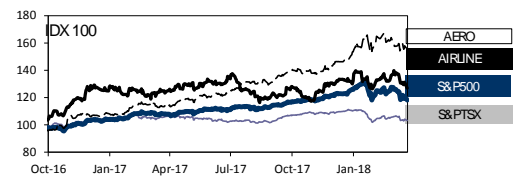
Traffic remains robust, but capacity spikes. WestJet reported strong traffic numbers of 2.8% in April, in excess of capacity growth of 1.4%, leading to a system load factor of 86% (up 120 points Y/Y). The North American peer group reported solid traffic growth of 2.9%; however, capacity rose sharply by 3.2%, leading to a decline in load factor of -0.3%. We had been expecting rising capacity for some time now, and this led to the first decline in the load factor since September 2017.

In this edition...

- **RBC Fare Tracker (p. 2):** Seeing positive fare growth for AC and WJA this month.
- **Company Tear Sheets (p. 4)**



INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&P500	(2.0)	(5.8)	(3.0)	▼
S&P 500	(4.7)	(0.6)	12.7	▼
AMEX Airline	(5.9)	(2.9)	2.4	▼
AMEX Aerospace	(3.6)	7.7	38.6	▼



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	5.9	8.8	21.0	Δ
Jet Fuel	12.9	1.4	29.7	Δ
CAD/USD	(1.9)	0.2	(5.4)	▼
AEROSPACE				
Bombardier	(2.4)	20.8	64.9	▼
Boeing	(5.6)	13.5	88.6	▼
EADS	(3.0)	15.0	34.2	▼
Embraer	(3.7)	9.4	21.1	▼
General Dynamics	(6.7)	5.4	14.3	▼
Textron	(3.3)	3.2	21.2	▼
United Technologies	(8.3)	(3.6)	8.9	▼
N.A. MAINLINE				
Air Canada	(6.6)	(2.0)	91.5	▼
AMR	(15.4)	(8.8)	12.1	▼
Delta	(6.7)	(6.5)	16.4	▼
United	(5.5)	0.3	(5.5)	▼
N.A. REGIONAL				
Alaska	(7.6)	(18.6)	(32.8)	▼
Allegiant	(4.9)	7.1	4.9	▼
Chorus Aviation	0.9	(14.5)	9.6	Δ
JetBlue	(12.0)	(13.3)	(8.9)	▼
SkyWest	(8.3)	0.1	67.1	▼
Southwest	(9.3)	(17.3)	(0.2)	▼
WestJet	(5.3)	(12.7)	0.9	▼
INTL AIRLINES				
Lufthansa	4.3	(12.5)	76.1	Δ
Air France/KLM	(6.5)	(35.6)	20.9	▼
BA/Iberia	0.5	(3.7)	18.7	Δ
Cathay Pacific	(1.6)	3.3	(43.8)	▼
Air China	(3.3)	12.9	56.0	▼
China Eastern	(5.4)	7.8	40.5	▼
China Southern	(12.4)	6.2	57.0	▼
Singapore Airlines	0.4	3.1	7.9	Δ
Qantas	2.0	20.8	55.4	Δ

Source: Bloomberg



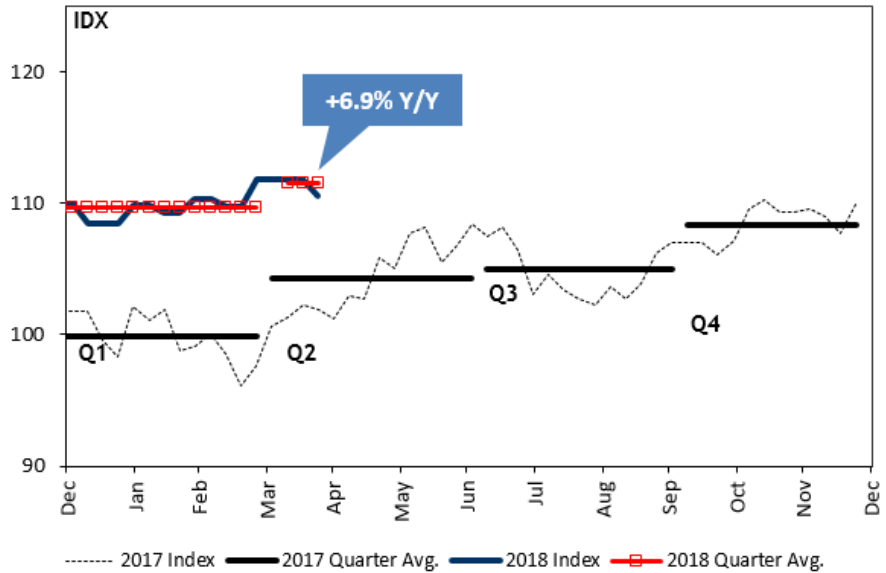
RBC Fare Survey

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 decreased in April month-over-month by 104 basis points. However, fares are still tracking 6.9% higher Y/Y, off a strong quarter in 2017. Adjusted for stage length changes, fare rose +4.4% Y/Y.

Looking at segments, most of the weakness came from the domestic segment; US Transborder prices were modestly weak, while the Vacation segment posted strong gains for the month.

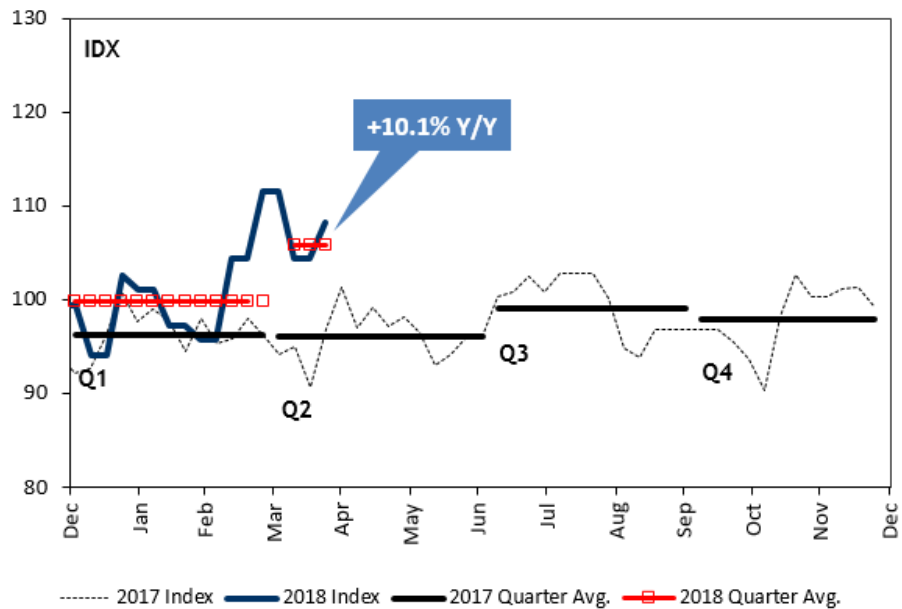


Sources: RBC Capital Markets estimates, Company websites

WestJet

According to the RBC fare tracker, fares at WestJet weakened by 273 basis points in April. The weakness seems to be isolated in the domestic segment, as fare prices in Vacation and Transborder were firm.

The year-over-year numbers are pointing to an increase of 10.1%, but this does compare to a particularly weak period in 2017.



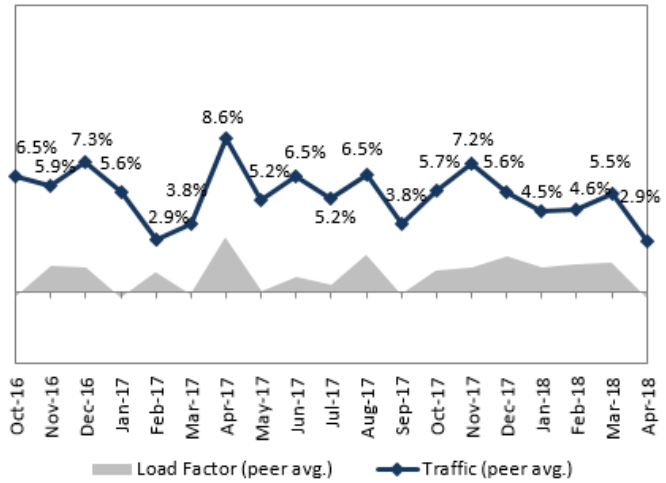
Sources: RBC Capital Markets estimates, Company websites



The Load Factor

Industry trends

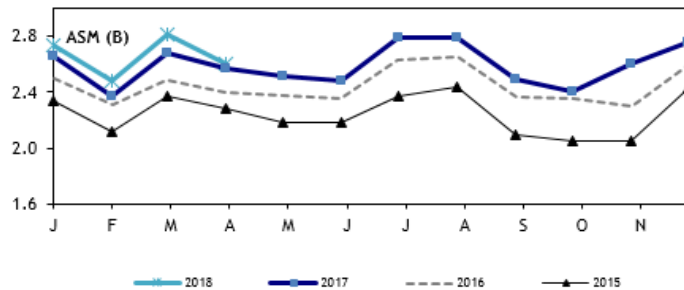
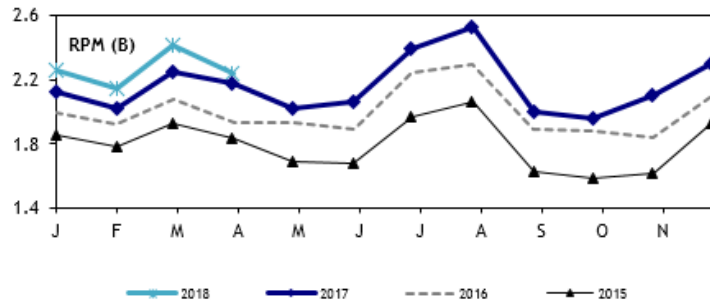
On average, the peer group reported 2.9% traffic growth in April, below the average capacity growth of 3.2%, leading to a decrease in the load factor by -0.3%. This was the first decline in the load factor since September 2017 as capacity rose sharply in April for most North American carriers.



Sources: Company websites, RBC Capital Markets estimates

WestJet

WestJet reported positive traffic growth in April, up 2.8%; however, this was below our estimate of 5%. This came on the back of capacity growth of 1.4% (vs. our 6.0% estimate), which led to a system load factor of 86.0% (up 120 points Y/Y).



	April			YTD		
	2018	2017	Δ	2018	2017	Δ
RPMs (B)	2.240	2.178	+2.8%	9.050	8.571	+5.6%
ASMs (B)	2.606	2.569	+1.4%	10.634	10.268	+3.6%
Load Factor	86.0%	84.8%	1.2 pts	85.1%	83.5%	1.6 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 ready to battle UTC over Bombardier C Series costs.** Airbus is preparing to cross swords with United Technologies over the price of components and services for the Bombardier C Series in a bid to make it easier to market the jet it agreed to bail out last year, people close to the matter said. Airbus is concerned about an increased share of the Canadian project that would be controlled by United Technologies after it completes its \$23-billion acquisition of Rockwell Collins, they said. Together, the pair will have by far the largest share of C Series parts and systems by value, placing it at the center of efforts by Airbus to reduce the plane's cost and echoing a broader power struggle between planemakers and suppliers. (The Globe and Mail, April 26, 2018).
- **Airbus, Bombardier hope to close C Series deal by late May: sources.** Airbus SE and Bombardier aim to close a deal giving the European planemaker a majority stake in the Canadian company's C Series jetliner program by the end of May, ahead of an initial timetable, two people familiar with the matter told Reuters. An early closure of the deal would accelerate orders and efforts to reduce costs, the people said. A third source said the finalization is now "very close." The deal was originally expected to close in late 2018, and then mid-year, pending regulatory approval. (The Globe and Mail, April 25, 2018).
- **WTO allows Brazil's complaint against Bombardier's C Series to proceed.** Brazil has secured WTO backing to press its claims against Canada in a dispute over what it says are unfair subsidies for Bombardier Inc's C Series jets, a preliminary WTO ruling showed. Brazil launched the WTO dispute last year, saying the C Series had received \$3 billion in federal, provincial and local subsidies. Canada objected, saying Brazil had unfairly broadened the case by including four claims that went beyond its original complaint. Brazil said their inclusion did not change the essence of the dispute. (The Globe and Mail, April 17, 2018)

Regional Jets

- **Ethiopian orders another 10 Q400.** Ethiopian Airlines has placed a firm order for 10 Bombardier Q400s, further marking continued interest in the turboprop by Africa's largest Q400 operator. The agreement, which includes rights for Ethiopian to purchase five additional Q400s, calls for deliveries to begin in the second quarter of 2019, and the deal has a value at list prices of \$332 million, Bombardier says in a media release. The sale brings Bombardier's number of outstanding Q400 orders to 58, up from just 23 aircraft one year ago. (Flight Global, April 27, 2018).

Business Jets

- **OJets launches in Singapore with Bombardier business jet pair.** A luxury charter company has launched in Singapore with a pair of high-end, Maltese-registered Bombardier business jets, financed through Chinese company Minsheng Financial Leasing. OJets kick-started services on 5 April with a long-range Global 6000 and a large-cabin Challenger 650 that were previously owned by Zetta Jet, according to Flight Fleets Analyzer. The US charter company and its Singapore subsidiary ceased operations in late 2017. (Flight Global, April 10, 2018)



CAE

Civil

- **Further acceleration in traffic growth: +9.5% Y/Y in March:** The IATA (International Air Transport Association) reported a 9.5% Y/Y increase in global air traffic in March, a twelve month high and acceleration from the 7.6% increase in February. The growth was led by stabilization in the Middle East to North America routes that previously were weighed down by the ban on portable electronics and proposed travel restrictions. The ban has now been lifted. Freight traffic growth slowed a bit off all-time highs, though is still up 5.4% YTD. We see the solid global economic backdrop to be supportive of the commercial aviation and freight markets. (IATA)
- **CAE signs long-term contract with Virgin Atlantic Airways:** CAE announced that they have signed an exclusive long-term contract with Virgin Atlantic Airways for the pilot training for its Airbus A330 and A350 aircrafts. The training will begin in 2019 and span over 10 years. The training will be based in CAE's London Gatwick centre, equipped with new 7000XR full-flight simulators. (CAE)

Military

- **QinetiQ group to acquire EIS Aircraft Operations, provider of training services to German Armed Forces:** QinetiQ group entered into an agreement to acquire E.I.S. Aircraft Operations, a subsidiary of E.I.S. Aircraft Group, for €70 million at ~3.5x sales and ~13x EBITDA. The military pilot training market is more fragmented than the commercial counterpart, and we have seen some consolidation within the industry in recent years. Aircraft Operations provides airborne training services based in Germany, and has been the exclusive provider of low-speed aerial training services to the German armed forces since 1999. It also delivers aerial training services to the United States Air force based in Europe. The company generated €20M in revenues and €5.4M in EBITDA in 2017. (MS&T Magazine)
- **CAE to develop multinational simulation centre for military training:** CAE was contracted to develop a joint multinational simulation centre for a Gulf Cooperation Council (GCC) customer, providing military training services to commanders and operations from the Army, Air Force, Navy and Staff Colleges between allied nations. The contract value is unknown, though it will add to CAE's military backlog, which stood at an elevated level of \$3.5bn as at Q3/18 end. (CAE)



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

FY Dec 31	2016	Q1/17	Q2/17	Q3/17E	Q4/17	2017A	Q1/18	Q2/18E	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	2020E
Traffic / RPM (MMs)	76,481	18,341	20,928	26,472	19,396	85,137	20,440	22,602	28,193	20,366	91,601	20,951	23,167	28,897	20,875	93,891	96,238
% change	13.2%	14.0%	13.6%	8.8%	9.9%	11.3%	11.4%	8.0%	6.5%	5.0%	7.6%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Capacity / ASM (MMs)	92,726	22,894	25,357	31,050	24,191	103,492	24,862	27,386	33,068	25,401	110,716	25,608	28,207	34,060	26,163	114,038	117,459
% change	14.7%	15.4%	13.5%	9.1%	9.5%	11.6%	8.6%	8.0%	6.5%	5.0%	7.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Load Factor (%)	82.5%	80.1%	82.5%	85.3%	80.2%	82.3%	82.2%	82.5%	85.3%	80.2%	82.7%	81.8%	82.1%	84.8%	79.8%	82.3%	81.9%
change (% pts)	-1.0%	-1.0%	0.1%	-0.2%	0.3%	-0.2%	2.1%	0.0%	0.0%	0.0%	0.5%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%
Yield (\$)	0.169	0.170	0.165	0.166	0.171	0.168	0.171	0.170	0.171	0.178	0.172	0.173	0.173	0.174	0.180	0.175	0.178
% change	-6.4%	-2.4%	-1.4%	0.4%	1.4%	-0.6%	0.4%	3.0%	3.0%	3.9%	2.6%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
RASM (Rev per unit of capacity, cents)	14.2	13.6	13.6	14.2	13.7	14.0	14.0	14.0	14.6	14.2	14.2	14.2	14.2	14.7	14.4	14.4	14.5
CASM (excl. fuel) (cents)	11.5	12.7	11.2	9.5	11.7	11.1	12.7	11.2	9.5	11.3	11.1	12.8	11.4	9.8	11.6	11.3	11.4
Total Revenues	14,677	3,642	3,910	4,880	3,820	16,252	4,071	4,308	5,258	4,111	17,748	4,224	4,473	5,462	4,267	18,426	19,129
Wages, salaries and benefits	2510	644	663	690	674	2671	700	717	718	715	2850	743	761	762	759	3024	3177
% Sales	17.1%	17.7%	17.0%	14.1%	17.6%	16.4%	17.2%	16.6%	13.7%	17.4%	16.1%	17.6%	17.0%	13.9%	17.8%	16.4%	16.6%
Aircraft Fuel - total	2606	754	797	941	847	3339	939	1076	1249	962	4226	934	995	1179	911	4018	3936
% Sales	17.8%	20.7%	20.4%	19.3%	22.2%	20.5%	23.1%	25.0%	23.7%	23.4%	23.8%	22.1%	22.2%	21.6%	21.3%	21.8%	20.6%
Sales and distribution costs	703	181	199	204	169	753	189	215	211	172	787	195	221	217	178	811	835
% Sales	4.8%	5.0%	5.1%	4.2%	4.4%	4.6%	4.6%	5.0%	4.0%	4.2%	4.4%	4.6%	4.9%	4.0%	4.2%	4.4%	4.4%
Food, beverages, supplies	349	85	97	112	89	383	96	105	119	93	413	99	108	123	96	426	439
% Sales	2.4%	2.3%	2.5%	2.3%	2.3%	2.4%	2.4%	2.4%	2.3%	2.3%	2.3%	2.3%	2.4%	2.2%	2.3%	2.3%	2.3%
Aircraft maintenance	883	228	226	241	243	938	256	285	248	239	1028	269	299	261	251	1079	1133
% Sales	6.0%	6.3%	5.8%	4.9%	6.4%	5.8%	6.3%	6.6%	4.7%	5.8%	5.8%	6.4%	6.7%	4.8%	5.9%	5.9%	5.9%
Airport and navigation fees	859	210	230	264	201	905	221	248	275	206	950	228	256	283	212	978	1008
% Sales	5.9%	5.8%	5.9%	5.4%	5.3%	5.6%	5.4%	5.8%	5.2%	5.0%	5.4%	5.4%	5.7%	5.2%	5.0%	5.3%	5.3%
Communications and information technol	242	71	58	63	62	254	79	63	57	57	256	81	65	59	59	264	260
% Sales	1.6%	1.9%	1.5%	1.3%	1.6%	1.6%	1.9%	1.5%	1.1%	1.4%	1.4%	1.9%	1.4%	1.1%	1.4%	1.4%	1.4%
Other	3268	847	867	904	908	3526	918	912	918	896	3645	955	961	1025	933	3873	4021
% Sales	22.3%	23.3%	22.2%	18.5%	23.8%	21.7%	22.5%	21.2%	17.5%	21.8%	20.5%	22.6%	21.5%	18.8%	21.9%	21.0%	21.0%
Regional airline expense (ex fuel and DA)	2027	521	535	535	546	2137	542	568	550	567	2227	575	603	588	591	2357	2447
% Sales	13.8%	14.3%	13.7%	11.0%	14.3%	13.1%	13.3%	13.2%	10.5%	13.8%	12.5%	13.6%	13.5%	10.8%	13.9%	12.8%	12.8%
Total Operating Costs	11,420	3,020	3,137	3,419	3,193	12,769	3,398	3,622	3,795	3,341	14,155	3,503	3,665	3,908	3,398	14,473	14,809
EBITDAR	2,768	366	670	1,388	521	2,945	397	583	1,388	661	3,029	437	701	1,477	757	3,372	3,722
% of sales	18.9%	10.0%	17.1%	28.4%	13.6%	18.1%	9.8%	13.5%	26.4%	16.1%	17.1%	10.3%	15.7%	27.0%	17.7%	18.3%	19.5%
EPS (F.D) (\$ (Exc. Special charges)	\$ 4.11	\$ (0.23)	\$ 0.78	\$ 3.51	\$ 0.22	\$ 4.19	\$ (0.26)	\$ 0.26	\$ 2.13	\$ 0.61	\$ 2.74	\$ (0.15)	\$ 0.53	\$ 2.32	\$ 0.77	\$ 3.48	\$ 4.44

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	6,810	6,566	7,510	6,962	27,848	7,322	7,059	8,074	7,484	29,938
% change	11.3%	6.8%	8.9%	7.9%	8.8%	8.1%	6.5%	4.9%	8.5%	10.0%	7.5%	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	8,029	7,938	8,762	8,425	33,154	8,667	8,573	9,463	9,099	35,802
% change	8.9%	5.5%	6.3%	5.8%	5.6%	5.8%	4.3%	4.9%	8.5%	10.0%	7.0%	7.9%	8.0%	8.0%	8.0%	8.0%
Load Factor in (%)	81.8%	83.0%	82.8%	85.7%	82.6%	83.6%	84.8%	82.7%	85.7%	82.6%	84.0%	84.5%	82.3%	85.3%	82.3%	83.6%
change (%pts)	1.8%	0.9%	2.0%	1.7%	2.4%	1.8%	1.8%	0.0%	0.0%	0.0%	0.4%	-0.3%	-0.4%	-0.4%	-0.4%	-0.4%
Yield (cents per RPM)	17.20	17.44	16.85	17.56	17.66	17.38	17.50	16.85	17.91	18.01	17.59	17.76	17.10	18.18	18.28	17.85
% change	-8.1%	1.3%	2.1%	0.2%	0.9%	1.0%	0.3%	0.0%	2.0%	2.0%	1.2%	1.5%	1.5%	1.5%	1.5%	1.5%
RASM (Revenue per unit of capacity, cents)	14.1	14.5	13.9	15.1	14.6	14.5	14.8	13.9	15.4	14.9	14.8	15.0	14.1	15.5	15.0	14.9
CASM (excl. fuel) (cents)	10.0	10.4	9.9	9.6	10.3	10.0	10.6	10.7	9.6	10.4	10.3	10.8	10.6	10.0	10.5	10.5
Total Revenues	4,122.9	1,114.3	1,055.0	1,215.6	1,117.4	4,502.3	1,191.7	1,106.4	1,345.2	1,253.9	4,897.2	1,300.5	1,207.2	1,467.8	1,368.1	5,343.7
% change	2.3%	8.0%	11.1%	8.1%	9.8%	9.2%	7.0%	4.9%	10.7%	12.2%	8.8%	9.1%	9.1%	9.1%	9.1%	9.1%
Airport Operations	581.9	168.9	154.5	127.1	158.7	609.3	172.9	155.9	132.7	174.6	636.1	186.7	168.4	143.3	188.6	686.9
% change	4%	6%	6%	6%	2%	5%	2%	1%	4%	10%	4%	8%	8%	8%	8%	8%
Aircraft Fuel	765.9	235.5	224.9	238.0	251.6	950.0	281.2	290.8	322.1	302.3	1196.4	306.6	295.5	322.5	300.4	1225.0
% change	-6%	42%	23%	15%	20%	24%	19%	29%	35%	20%	26%	9%	2%	0%	-1%	2%
Maintenance	231.5	62.0	56.7	65.7	58.2	242.6	63.4	57.2	68.6	64.1	253.3	68.5	61.8	74.1	69.2	273.5
% change	1%	6%	6%	6%	2%	5%	2%	1%	4%	10%	4%	8%	8%	8%	8%	8%
Sales & Distribution	442.7	114.4	109.6	127.1	112.6	463.9	117.1	110.7	132.7	123.9	484.4	126.5	119.5	143.3	133.8	523.1
% change	16%	6%	6%	6%	2%	5%	2%	1%	4%	10%	4%	8%	8%	8%	8%	8%
Marketing, General & Administrative	243.2	64.3	59.8	69.3	61.4	254.9	65.8	60.4	72.4	67.6	266.1	71.1	65.2	78.2	73.0	287.4
% change	5%	6%	6%	6%	2%	5%	2%	1%	4%	10%	4%	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	140.8	168.9	157.7	621.4	166.2	152.1	182.4	170.3	671.0
% change	14%	6%	6%	6%	2%	5%	2%	1%	4%	10%	4%	8%	8%	8%	8%	8%
In-Flight	232.1	62.1	56.8	65.9	58.4	243.2	63.6	57.3	68.8	64.2	253.9	68.6	61.9	74.3	69.3	274.2
% change	12%	6%	6%	6%	2%	5%	2%	1%	4%	10%	4%	8%	8%	8%	8%	8%
Employee Profit Sharing	59.3	7.0	7.8	27.6	4.4	46.8	6.4	5.9	7.2	6.7	26.2	19.5	18.1	22.0	20.5	80.2
% change	-41%	-69%	-751%	-13%	-32%	-21%	-9%	-24%	-74%	53%	-44%	206%	206%	206%	206%	206%
EBITDAR (after profit sharing)	969.0	223.0	217.9	342.4	224.5	1,007.9	200.9	109.1	342.1	232.9	885.1	217.6	155.1	372.0	283.2	1,027.8
% of sales	23.5%	20.0%	20.7%	28.2%	20.1%	22.4%	16.9%	9.9%	25.4%	18.6%	18.1%	16.7%	12.8%	25.3%	20.7%	19.2%
EPS F.D.	2.45	0.41	0.41	1.18	0.41	2.41	0.32	(0.26)	1.03	0.39	1.49	0.30	(0.05)	1.13	0.63	2.00

Source: Company Reports; RBC Capital Markets Estimates



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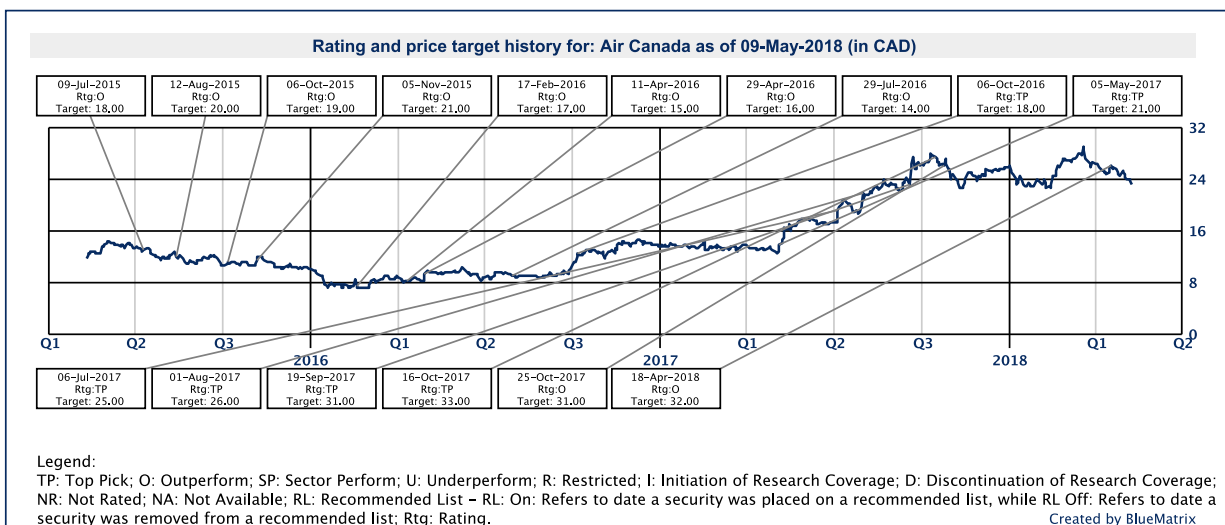
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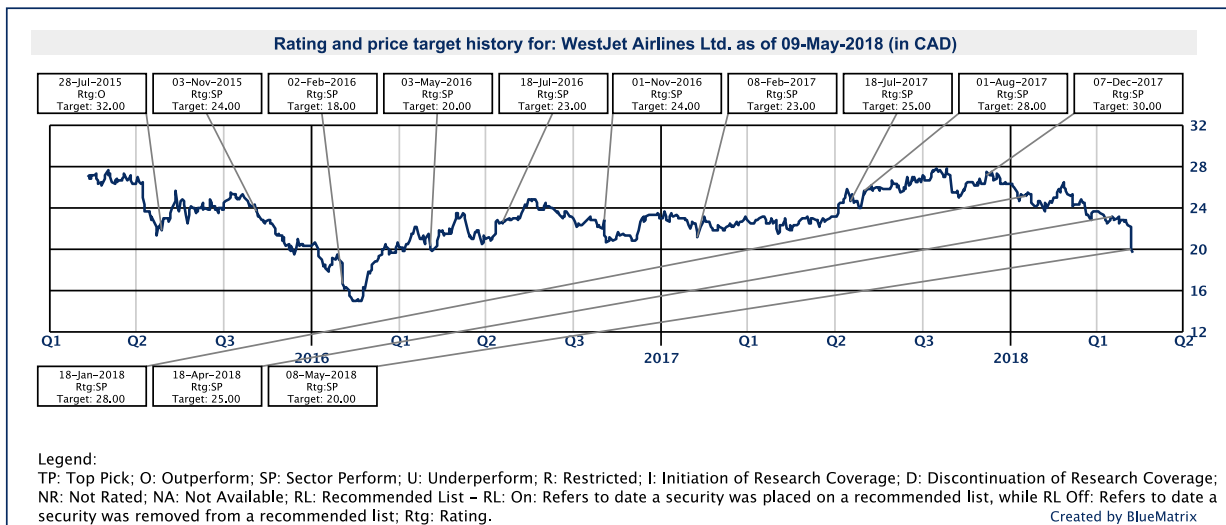


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Air Canada

Valuation

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Risks to rating and price target

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WestJet Airlines Ltd.

Valuation

May 10, 2018



Our \$20 price target is based on an EV/EBITDAR approach whereby we apply a 4.4x 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

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