



April 16, 2019

RBC Flight Deck

Q1 Preview - Expecting a noisy Q1 for the airlines sector

Q1 preview. We expect Q1 to be a noisy quarter for the Canadian airlines, but remind investors that underlying drivers appear strong. Some of the moving parts this quarter include: the 737 MAX 8 grounding by the FAA that occurred March 13, the transition to IFRS 16, and the inclusion of Aeroplan (for Air Canada). In terms of fundamentals, we note traffic growth remains robust and capacity growth continues to be held in check; and as we discuss below, our Fare Tracker suggests fares are continuing to rise.

RBC Fare Survey points to higher prices in Q1. Our proprietary Fare Survey tracks price changes on selected routes to gauge the direction and magnitude of fare prices in the quarter. Based on these data, overall fare growth was solid in Q1. For Air Canada, this is the eight consecutive quarter that our Survey has registered positive growth, with the RBC Fare Survey index up +3.9% Y/Y. WestJet fares showed a strong spike towards the end of the quarter, and ultimately our fare survey pointed to fares up a healthy 5.6% Y/Y in Q1.

Updating estimates ahead of Q1. Our estimates have changed modestly ahead of the Q1 reporting season, mostly the result of the rise in oil prices, a slight increase in costs related to rescheduling the grounded MAX 8 flights (price targets unchanged). Highlights are below, with further details on pages 4-6.

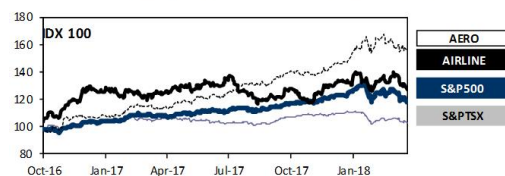
- **AC: Maintaining Outperform; Price Target remains at \$43.** We are adjusting our Q1 estimates for: 1) higher forward fuel curve; 2) decreased capacity forecasts and 3) modestly increased CASM (the latter two due to the grounding of the Boeing 737 MAX 8). We also note this is the first quarter including Aeroplan and using the new IFRS accounting rules. Suffice it to say it is shaping up to be a noisy quarter, but fundamentals appear sound.
- **WJA: Maintaining Sector Perform; maintaining Price Target at \$20.** We are adjusting our Q1 estimates for the same factors: 1) higher forward fuel curve; 2) decreased capacity forecasts and 3) modestly increased CASM (due to the grounding of the 737 MAX 8). Mostly due to fuel prices, our Q1 EBITDAR estimate moved lower to \$204MM (from \$217MM), which is now below consensus.
- **CHR: Maintaining Outperform and \$9.50 price target:** We have largely kept estimates unchanged ahead of Q1 results, but slightly tweaked the model to account for upcoming IFRS 16 implementation. Unlike AC and WJA, Chorus is unaffected by higher fuel prices because they bill AC directly as per the CPA.

In this edition...

- **RBC Fare Tracker (p. 2):** Positive Q1 fare growth for WJA and AC.
- **Company Tear Sheets (p. 4)**
- **Air Buzz - Bombardier News (p. 5)**



INDEX	1-M (%)	YTD (%)	1-YR (%)	TREND
S&PTSX	2.3	15.3	8.1	Δ
S&P 500	2.9	15.9	9.4	Δ
AMEX Airline	3.0	12.3	(10.7)	Δ
AMEX Aerospace	2.5	18.6	(0.7)	Δ



COMMODITIES	1-M (%)	YTD (%)	1-YR (%)	TREND
WTI	8.1	36.7	3.7	Δ
Jet Fuel	4.3	19.1	(5.1)	Δ
CAD/USD	0.3	(2.0)	6.4	Δ

AEROSPACE				
Bombardier	(8.0)	29.6	(27.7)	▼
Boeing	(0.9)	16.4	14.0	▼
EADS	(0.4)	39.6	28.1	▼
Embraer	(7.4)	(14.6)	(29.8)	▼
General Dynamics	1.3	9.4	(21.2)	Δ
Textron	(0.7)	11.8	(12.1)	▼
United Technologies	6.9	26.4	9.6	Δ

N.A. MAINLINE				
Air Canada	0.9	23.1	29.1	Δ
AMR	7.4	5.1	(26.4)	Δ
Delta	12.2	15.1	8.6	Δ
United	3.5	0.9	27.0	Δ

N.A. REGIONAL				
Alaska	7.7	(1.3)	(6.1)	Δ
Allegiant	5.6	32.6	(12.0)	Δ
Chorus Aviation	(1.4)	27.7	(12.8)	▼
JetBlue	1.1	5.4	(13.2)	Δ
SkyWest	12.9	30.9	7.5	Δ
Southwest	1.8	12.5	(5.0)	Δ
WestJet	(1.1)	7.9	(14.0)	▼

INTL. AIRLINES				
Lufthansa	4.5	12.1	(16.6)	Δ
Air France/KLM	3.1	17.0	29.0	Δ
BA/Iberia	(0.9)	(12.1)	(10.8)	▼
Cathay Pacific	0.0	0.0	(4.8)	Δ
Air China	21.0	46.2	(1.9)	Δ
China Eastern	13.6	34.4	0.9	Δ
China Southern	15.7	52.2	(5.4)	Δ
Singapore Airlines	0.8	4.9	(8.2)	Δ
Qantas	0.9	(2.1)	(2.9)	Δ

Source: Bloomberg



Canadian Airlines Q1/19 preview

Expecting a noisy Q1 for the airline sector

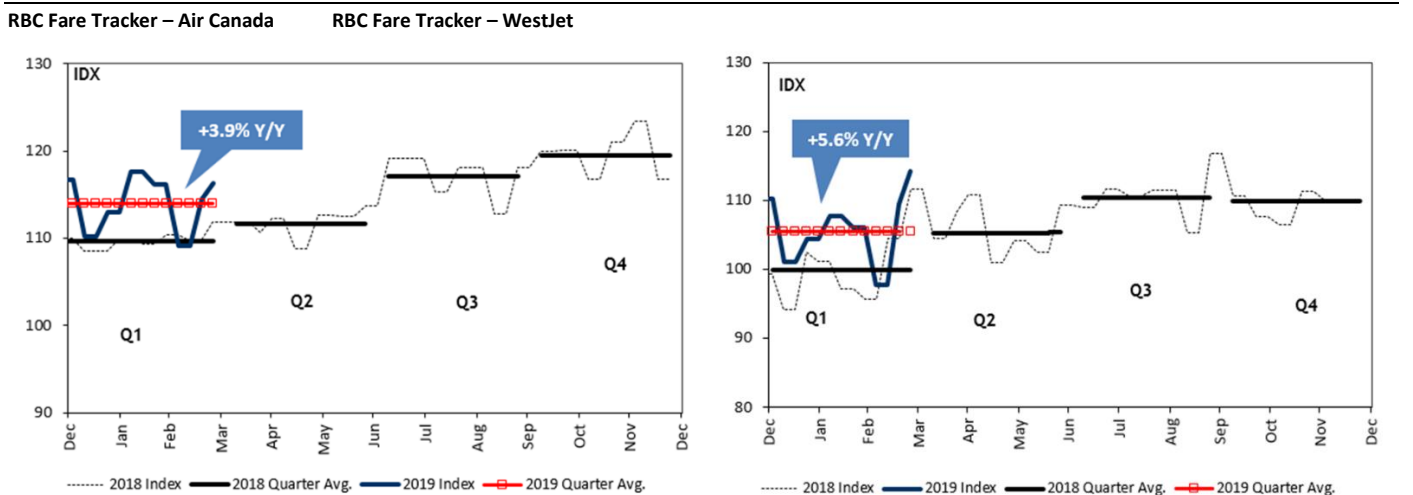
We expect Q1 to be a noisy quarter for the Canadian airlines, but remind investors that underlying drivers like traffic and yields remain strong. Some of the moving parts this quarter include: the MAX 8 grounding by the FAA that occurred March 13, the transition to IFRS 16, and the inclusion of Aeroplan (for Air Canada). In terms of fundamentals, however, we note traffic growth remains robust and capacity growth continues to be held in check; and as we discuss below, fare prices (as measured by our Fare Tracker) are rising. We also note AC was upgraded by two ratings agencies (S&P, Fitch) this month to one notch below investment grade, and this precedes a year where AC is set to begin generating steadily increasing FCF. As such, it remains our preferred name in the sector.

Robust traffic and strong demand supports fare prices in Q1

As tracked by the RBC Fare Survey, the Canadian airlines are pointing the way toward another quarter of positive Y/Y fare price growth in Q1, despite some mid-quarter volatility. For Air Canada, this is the eight consecutive quarter that our Survey has registered positive growth for the company, with the RBC Fare Survey index up +3.9% Y/Y for Air Canada. As a proxy for yields in the quarter – we adjust down by 250bp for mix, implying a yield increase of +1.4% Y/Y.

WestJet fares showed a strong spike towards the end of the quarter, and ultimately fares rose up a very healthy 5.6% Y/Y. After adjusting down by 50bp to account for mix, it implies a positive yield of 5.1% Y/Y.

Exhibit 1: Fares were volatile but ended the quarter higher



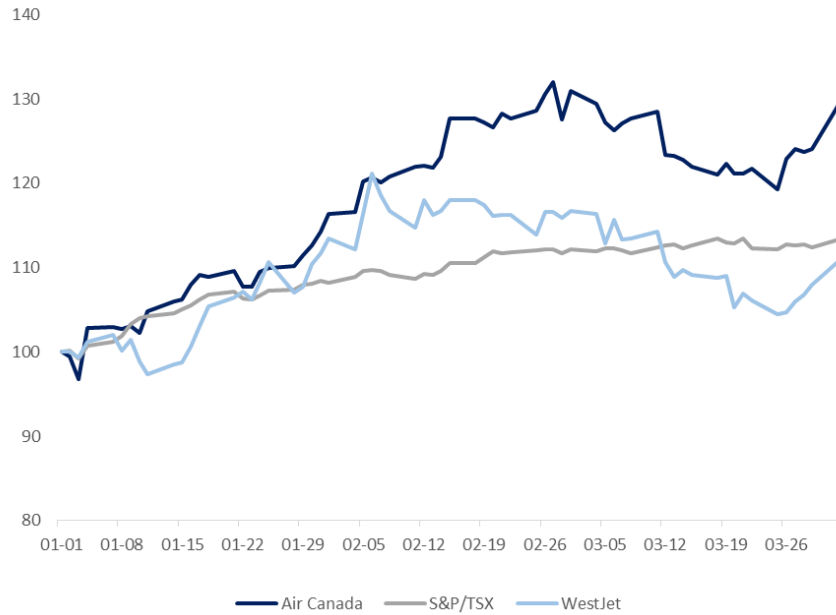
Source: Air Canada, WestJet, RBC Capital Markets estimates

Air Canada Outperforms the TSX

Both airlines began the quarter by outperforming the index, but shares diverged with the reporting of Q4 results. Air Canada maintained positive momentum throughout Q4 results, the 2019 Investor Day, and only began drifting lower following the Boeing 737 MAX incident on March 10. Shares did fully recover towards the end of the month. WestJet shares started the quarter strong, but weakened following the release of Q4 results, and faltered even further following the 737 MAX event. Similar, there was a slight uptick in the last week of March.



Exhibit 2: Air Canada strongly outperforms in Q1



Source: Factset, RBC Capital Markets

Q1 Preview: Estimates

Our estimates have changed modestly ahead of the Q1 reporting season, mostly the result of the slight rise in oil prices, and a slight increase in costs related to rescheduling the grounded MAX 8 flights, but overall our price targets have remained unchanged. Details are in the company summaries that follow.



Air Canada (TSX: AC)

Outperform; \$43 Target (unchg)

SUMMARY

Market price:	\$31.84	52-Wk High:	\$35.50
Yield (12-mth):	0.0%	52-Wk Low:	\$20.33
Total est. return:	35%	Mkt Cap (MM):	\$8,756
Shares O/S (MM):	275.0	Net Debt (MM):	\$6,393
Float (MM):	\$8,756	EV (MM):	\$15,149

CONFERENCE CALL DETAILS

- Tuesday, May 7th at 8:30AM ET
- 1-800-478-9326

Q1/19 set-up. We are adjusting our Q1 estimates for: 1) higher forward fuel curve; 2) decreased capacity forecasts and 3) modestly increased CASM (the latter two due to the grounding of the Boeing 737 MAX 8). Our EBITDAR margin falls to 18.1% for 2019, modestly below the 19-22% guidance provided at Investor day – however we note that management has suspended guidance following the MAX 8 grounding. We also note this is the first quarter including Aeroplan and using the new IFRS accounting rules. Suffice it to say it is shaping up to be a noisy quarter, but fundamentals appear sound.

Slight change to estimates. On the back of the above noted changes, our forward estimates come down slightly (table below); putting us below street consensus (which we believe will drift lower). Nevertheless, we reiterate AC as a preferred name in Transportation and maintain Outperform.

Area of focus. Our focus will be on the management’s quantification of the impact of the MAX 8 grounding; how disclosure will be updated once regular operations resume; and how the company plans to mitigate disruptions. Finally, we will monitor for progress toward FCF generation and capex trends as they are key to our thesis on AC.

STOCK SET-UP

Q1/19 Performance

Absolute 25%
vs. S&P TSX 1,178bps

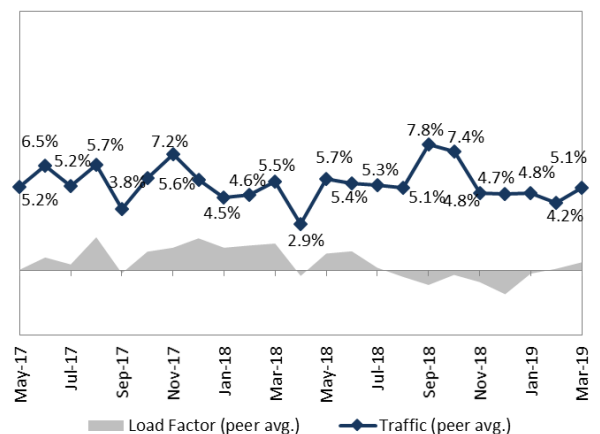
Short Interest (Days to Cover)

Current 1.5

Analyst Sentiment

Outperform 89%
Sector Perform 11%
Underperform 0%

TRAFFIC DATA



	Q1/19E			2019E			2020E		
	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var
Traffic: RPMs (% chg)	5.0%	5.0%	0bp	5.0%	5.0%	0bp	2.5%	2.5%	0bp
Capacity: ASMs (% chg)	5.0%	4.0%	-100bp	5.0%	4.0%	-102bp	3.0%	3.0%	0bp
Load Factor (%pts)	82.2%	83.0%	79bp	83.3%	84.1%	81bp	82.9%	83.7%	81bp
Yield (% chg)	4.0%	4.0%	0bp	4.0%	4.0%	0bp	3.0%	3.0%	0bp
RASM (% chg)	4.2%	5.2%	100bp	3.4%	4.4%	101bp	2.5%	2.5%	0bp
Adj. CASM ex fuel+other (% chg)	0.2%	1.3%	111bp	0.1%	1.1%	97bp	1.6%	1.4%	-20bp
Avg Jet Fuel Price: (\$/Ltr)	\$0.80	\$0.81	1.8%	\$0.81	\$0.85	4.7%	\$0.81	\$0.84	3.8%
Revenue	4,407	4,407	0.0%	19,510	19,510	0.0%	20,530	20,530	0.0%
Expenses	3,920	3,939	0.5%	15,805	15,983	1.1%	16,410	16,495	0.5%
EBITDAR	487	468	-3.8%	3,704	3,527	-4.8%	4,120	4,035	-2.1%
EBITDAR Margin	11.0%	10.6%	-3.4%	19.0%	18.1%	-4.9%	20.1%	19.7%	-2.2%
EPS ex-one time items (\$)	(0.06)	(0.10)		4.03	3.56		4.97	4.73	
Consensus EBITDAR		479			3,645			4,028	

Source: Company reports, RBC CM estimates

Source: Bloomberg, Factset, RBC Capital Markets estimates, Company reports

Priced as of noon April 15, 2019



Chorus Aviation (TSX : CHR)

Outperform; \$9.50 Target (unchg)

SUMMARY

Market price:	7.18	52-Wk High:	\$8.30
Yield (12-mth):	6.7%	52-Wk Low:	\$4.54
Total est. return:	46%	Mkt Cap (MM)	\$1,025
Shares O/S (MM)	142.8	Net Debt (MM)	\$1,392
Float (MM):	\$1,025	EV (MM):	\$2,418

CONFERENCE CALL DETAILS

- Wednesday May 8th @ 10:00AM
- 1-888-231-8191

Q1/19 set-up: We have largely kept estimates unchanged ahead of Q1 results, but slightly tweaked the model to account for upcoming IFRS 16 implementation. Unlike AC and WJA, Chorus is unaffected by higher fuel prices because they bill AC directly as per the CPA. Valuation levels have recovered somewhat since the extended deal with Air Canada, but we believe the market is not fully appreciating the value of the current leasing business. We note that we are 10% above consensus estimates for Q1, but expect there is a lot of noise in the number, with 1) IFRS implementation, 2) extension of the CPA with Air Canada, and 3) seasonality within the leasing business.

Progress on leasing subsidiary. As at Q4, Chorus Aviation Capital (CAC) portfolio of leased regional aircraft (inclusive of 5 pending transactions) has reached 40 aircraft: 28 turboprops and 12 regional jets, valued at ~US \$860MM. We will be listening for management’s commentary on the deployment of the remaining capital raised for CAC, and new commentary regarding potential lease deals.

Maintain Outperform. The stability of cash flows under the CPA, especially with the extended deal, presents an attractive yield, while Chorus’s progress into aircraft leasing provides a platform for growth. We believe the stock presents an attractive risk adjusted return.

STOCK SET-UP

Q1/19 Performance

Absolute 26%
vs. S&P TSX 1,329bps

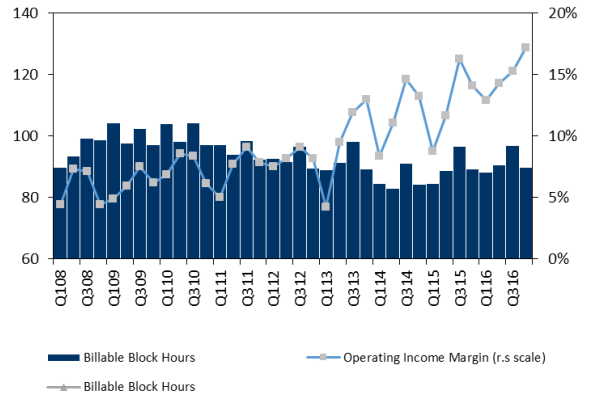
Short Interest (Days to Cover)

Current 4.8

Analyst Sentiment

Outperform 100%
Sector Perform -
Underperform 0%

OPERATING METRICS



	Q1/19E			2019E			2020E		
	OLD	NEW	Var	OLD	NEW	Var	OLD	NEW	Var
Revenue breakdown									
Controllable Revenue	193	184	-4.7%	776	751	-3.2%	842	800	-5.0%
Leasing under CPA	34	33	-1.0%	134	133	-0.6%	133	133	0.0%
Margin compensation	19	19	-0.1%	76	76	-0.1%	76	76	-0.1%
Incentives	0.4	0.4	6.3%	2	2	0.0%	2	2	0.0%
Pass through revenue	53	51	-4.0%	220	216	-1.8%	225	220	-2.2%
Passenger revenue	299	287	-4.0%	1,207	1,178	-2.4%	1,299	1,230	-5.3%
Regional Aircraft Leasing	21	21	0.0%	87	87	0.0%	102	102	0.0%
Total Revenues	312	308	-1.3%	1,454	1,355	-6.8%	1,559	1,425	-8.6%
Total Expenses	285	280	-1.6%	1,213	1,160	-4.3%	1,286	1,220	-5.1%
EBITDA	87	87	-0.5%	358	358	0.0%	415	415	0.1%
Consensus EBITDA		79			352			407	

Source: Bloomberg, RBC Capital Markets estimates, Company reports

Priced as of noon April 15, 2019



WestJet (TSX: WJA)

Sector Perform; \$20 Target (unchg)

SUMMARY

Market price:	\$19.38	52-Wk High:	\$23.27
Yield (12-mth):	2.8%	52-Wk Low:	\$16.71
Total est. return:	6%	Mkt Cap (MM):	\$2,271
Shares O/S (MM):	117.2	Net Debt (MM):	\$736
Float (MM):	\$2,229	EV (MM):	\$3,008

CONFERENCE CALL DETAILS

- Tuesday, May 7th @ 10:00AM
- 416-915-3239

Q1/19 set up. We are adjusting our Q1 estimates for: 1) higher forward fuel curve; 2) decreased capacity forecasts and 3) modestly increased CASM (the latter two due to the grounding of the Boeing 737 MAX 8). We note that our 2019 RASM estimate of 1.9% is just below previous guidance of 2-4%. Mostly due to the higher fuel prices, our Q1 EBITDAR estimate moved lower to \$204MM (from \$217MM). This is now below consensus (however, we believe consensus will trend lower). Our 2019 and 2020 estimates also move modestly lower, but our Price Target remains at \$20.

Focus of the call. We expect the upcoming quarterly call to focus on: 1) commentary around the MAX 8 grounding and whether this impacted planned capacity growth; 2) status of the roll-out of new yield enhancing initiatives, like branded fares and premium cabin launch; 3) the status of international route roll-out with WJA taking delivery of three Boeing 787 during Q1.

Maintaining Sector Perform. While Q4 results showed progress on stabilization, there continues to be some uncertainty around new initiatives, and the turnaround is notably in early stages. We will monitor performance to see how the management team navigates the company over the year.

STOCK SET-UP

Q1/19 Performance

Absolute 8%
vs. S&P TSX (504bps)

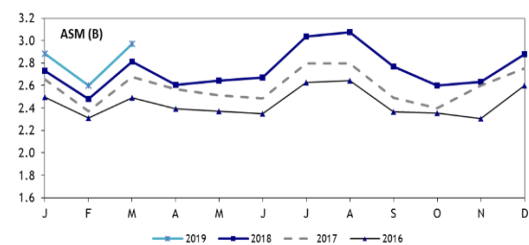
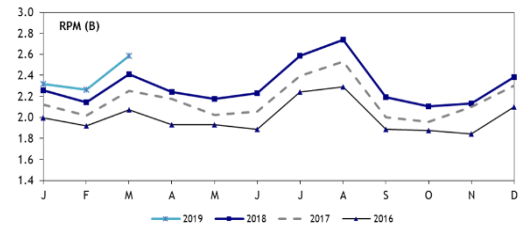
Short Interest (Days to Cover)

Current 3.6

Analyst Sentiment

Outperform 11%
Sector Perform 63%
Underperform 26%

TRAFFIC DATA



	RBC CM Q1/19E			RBC CM 2019E			RBC CM 2020E		
	Old	New	Var	Old	New	Var	Old	New	Var
Traffic: RPMs (% chg)	5.7%	5.3%	-44bp	6.7%	6.7%	1bp	6.5%	6.5%	0bp
Capacity: ASMs (% chg)	6.4%	5.3%	-113bp	7.1%	6.8%	-28bp	7.0%	7.0%	0bp
Load Factor (%pts)	-0.6%	0.0%	55bp	-0.3%	-0.1%	22bp	-0.4%	-0.4%	0bp
Yield (% chg)	1.9%	1.9%	0bp	2.0%	2.0%	0bp	1.5%	1.5%	0bp
RASM (% chg)	1.2%	1.8%	66bp	1.6%	1.9%	28bp	1.0%	1.0%	0bp
Adj. CASM ex fuel+other (% chg)	2.0%	3.3%	123bp	1.9%	1.7%	-22bp	1.1%	1.0%	-14bp
Avg Jet Fuel Price (\$/Ltr)	0.77	0.80	3.3%	0.78	0.83	5.9%	0.78	0.82	4.2%
Revenue	1,284	1,278	-0.4%	5,150	5,151	0.0%	5,567	5,568	0.0%
Expenses	1,067	1,074	0.7%	4,266	4,321	1.3%	4,612	4,641	0.6%
EBITDAR	217	204	-6.0%	885	830	-6.2%	955	928	-2.9%
EBITDAR margin	16.9%	16.0%		17.2%	16.1%	-106bp	17.2%	16.7%	-54bp
Consensus EBITDAR		214			916			1,034	

Source: Bloomberg, RBC Capital Markets estimates, Company reports

Priced as of noon April 15, 2019



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.

Bombardier

Commercial Aircraft

- **Bombardier and Embraer spar over 50-seater replacement.** Bombardier and Embraer have differing views on how to replace the aging 50-seat regional jet fleet around the world. Montreal-based Bombardier launched the CRJ550, a re-certified variant of the CRJ700 with 50 seats to allow for the addition of a premium product, as a replacement in February, while Embraer insists that the marketplace needs a new technology aircraft. The Canadian airframer launched the CRJ550 with United Airlines, whose regional partner GoJet Airlines will initially operate 50 of the aircraft for the Chicago-based carrier. The aircraft will be configured with 10 first class, 20 extra-legroom economy and 20 economy seats. (Source: Flight Global, March 11).

Business jets

- **Bombardier strengthens service and support capabilities for bizjet customers in China.** Bombardier has announced significant enhancements to its customer support capabilities for business aircraft customers in China on the eve of this year's Asian Business Aviation Conference & Exhibition (ABACE). Bombardier's centrally located service centre in Tianjin has received authorized service centre status from engine manufacturers Rolls-Royce, GE and Honeywell. This authorization demonstrates the confidence these renowned companies have in the abilities of this facility's world-class technicians. Bombardier's customers can now have the engines of their business jets serviced in China by the team who knows their aircraft best. (Source: Skies Magazine, April 15)
- **L.A. to NYC in Four Hours? Bombardier Says Global 7500 Jet Sets Record.** Bombardier Inc.'s Global 7500 private jet set a record for traveling between Los Angeles and New York City, shaving about 90 minutes off the time it takes an airliner to make the coast-to-coast trip. The Global 7500, the world's largest business jet, flew between Van Nuys Airport and Teterboro Airport just outside of New York City in 3 hours and 54 minutes, Bombardier said in a statement. The record comes after the Global 7500 flew 8,152 nautical miles on another recent trip, marking the longest flight for a private plane, the Canadian planemaker said. The aircraft, which has a list price of about \$73MM and began deliveries in December, has taken the crown from General Dynamics Corp.'s Gulfstream G650 as the most coveted luxury jet, boasting a four-zone cabin with a dining area and bedroom. The G650 created a new class of ultra-long-range business aircraft that had been uncontested since deliveries began in December 2012. (Source: Bloomberg, March 27)

Valuation

Air Canada

On a 4.4x EV/EBITDAR applied to our 2020 estimates, we derive our price target of \$43. Our discount to the peer legacy group average is 1.1x. Our base case reflects the following assumptions: (1) rising yields due to the recent focus on launching services aimed at the premium traveler, such as the Signature service; (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 rating.

Risks to our 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. Air Canada is not hedged to changes in jet fuel prices.



Chorus Aviation

Our \$9.50 price target on CHR shares is derived from an EV/EBITDAR multiple approach. We are applying a 6.5x EBITDAR multiple to our 2020E EBITDAR at \$415MM, which is a premium to the regional jet peers owing to the anticipated growth and diversification into regional aircraft leasing. This generates our \$9.50 price target, which is the basis of our Outperform rating.

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 \$20 price target is based on an EV/EBITDAR approach whereby we apply a 4.5x multiple to our 2020 estimate and is the basis of our Sector Perform rating. Our target multiple is a slight discount to mainline peer multiples, reflective of the execution risk and costs associated with the company's international and regional growth strategy.

Risks to our price target and estimates 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: Comparables

Symbol	15-Apr-19		EV/EBITDAR			EV/Sales			EBITDAR Margin			Net Debt to EBITDAR	EV (MM)	
	Price		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E			
Discount Airlines														
WestJet	WJA-CA	C\$	\$19.42	5.4x	4.4x	4.1x	0.8x	0.8x	0.7x	15%	17%	17%	1.9x	3,929
Southwest	LUV-US	US\$	\$52.29	6.5x	6.1x	5.7x	1.3x	1.3x	1.2x	21%	21%	21%	0.2x	29,447
JetBlue	JBLU-US	US\$	\$16.93	5.3x	4.9x	4.3x	0.9x	0.9x	0.8x	17%	18%	19%	1.3x	7,023
Discount Average				5.7x	5.1x	4.7x	1.0x	1.0x	0.9x	18%	19%	19%	0.8x	
Mainline Airlines														
Air Canada	AC-CA	C\$	\$31.95	5.1x	3.9x	3.5x	0.8x	0.7x	0.7x	16%	19%	20%	1.6x	14,462
Delta Air Lines	DAL-US	US\$	\$57.45	6.2x	5.4x	5.3x	1.1x	1.1x	1.0x	18%	20%	20%	1.3x	50,127
United Continental	UAL-US	US\$	\$84.52	5.6x	5.0x	4.8x	0.9x	0.8x	0.8x	16%	17%	16%	1.9x	36,145
American Airlines	AAL-US	US\$	\$33.75	6.6x	5.9x	5.8x	1.0x	0.9x	0.9x	15%	16%	15%	3.8x	43,094
Mainline Average				5.9x	5.1x	4.9x	0.9x	0.9x	0.9x	16%	18%	18%	2.4x	
Regional Airlines														
Chorus Aviation	CHR-CA	C\$	\$7.20	8.1x	7.0x	6.2x	2.2x	2.0x	1.9x	28%	29%	30%	4.4x	3,038
SkyWest Inc.	SKYW-US	US\$	\$58.22	7.5x	7.5x	7.5x	2.0x	2.3x	2.3x	27%	31%	31%	4.1x	6,562
Regional Average				7.8x	7.3x	6.9x	2.1x	2.2x	2.1x	27%	30%	30%	4.2x	
Airline Average				6.3x	5.6x	5.3x	1.2x	1.2x	1.1x	19%	21%	21%	2.3x	

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada, Chorus Aviation, and WestJet. Priced at market close on April 15, 2019



Appendix 2: AC Model

FY Dec 31	2017A	Q1/18	Q2/18	Q3/18	Q4/18	2018	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	Q1/20E	Q2/20E	Q3/20E	Q4/20E	2020E
Traffic / RPM (MMs)	85,137	20,440	22,654	28,465	20,793	92,352	21,462	23,787	29,888	21,833	96,970	21,999	24,381	30,635	22,378	99,394
% change	11.3%	11.4%	8.2%	7.5%	7.2%	8.5%	5.0%	5.0%	5.0%	5.0%	5.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Capacity / ASM (MMs)	103,492	24,862	27,269	33,137	25,594	110,862	25,856	28,087	34,462	26,874	115,280	26,632	28,930	35,496	27,680	118,738
% change	11.6%	8.6%	7.5%	6.7%	5.8%	7.1%	4.0%	3.0%	4.0%	5.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Load Factor (%)	82.3%	82.2%	83.1%	85.9%	81.2%	83.3%	83.0%	84.7%	86.7%	81.2%	84.1%	82.6%	84.3%	86.3%	80.8%	83.7%
change (% pts)	-0.2%	2.1%	0.5%	0.6%	1.1%	1.0%	0.8%	1.6%	0.8%	0.0%	0.8%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%
Yield (\$)	0.170	0.171	0.173	0.177	0.177	0.175	0.178	0.180	0.184	0.185	0.181	0.183	0.186	0.189	0.190	0.187
% change	0.8%	0.4%	2.0%	3.4%	3.8%	2.4%	4.0%	4.0%	4.0%	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%
RASM (Rev per unit of capacity, cents)	14.1	14.0	14.4	15.1	14.8	14.6	14.7	15.3	15.9	15.0	15.3	15.1	15.7	16.3	15.4	15.7
CASM (excl. fuel) (cents)	11.1	12.7	11.0	9.7	11.9	11.2	12.8	11.3	10.0	11.5	11.3	12.9	11.4	10.2	11.7	11.4
Total Revenues	16,252	4,071	4,333	5,415	4,246	18,065	4,407	4,714	5,896	4,493	19,510	4,631	4,961	6,210	4,727	20,530
Wages, salaries and benefits	2671	700	711	743	719	2873	735	747	728	755	2966	773	785	765	794	3116
% Sales	16.4%	17.2%	16.4%	13.7%	16.9%	15.9%	16.7%	15.8%	12.4%	16.8%	15.2%	16.7%	15.8%	12.3%	16.8%	15.2%
Aircraft Fuel - total	3339	939	1099	1371	1091	4500	1080	1216	1480	1162	4938	1159	1215	1465	1149	4989
% Sales	20.5%	23.1%	25.4%	25.3%	25.7%	24.9%	24.5%	25.8%	25.1%	25.9%	25.3%	25.0%	24.5%	23.6%	24.3%	24.3%
Sales and distribution costs	770	189	199	237	182	807	207	219	246	191	864	202	211	254	197	864
% Sales	4.7%	4.6%	4.6%	4.4%	4.3%	4.5%	4.7%	4.6%	4.2%	4.3%	4.4%	4.4%	4.3%	4.1%	4.2%	4.2%
Food, beverages, supplies	383	96	108	125	104	433	100	111	130	109	450	103	115	134	112	464
% Sales	2.4%	2.4%	2.5%	2.3%	2.4%	2.4%	2.3%	2.4%	2.2%	2.4%	2.3%	2.2%	2.3%	2.2%	2.4%	2.3%
Aircraft maintenance	938	256	220	277	250	1003	256	220	277	230	983	269	231	291	242	1032
% Sales	5.8%	6.3%	5.1%	5.1%	5.9%	5.6%	5.8%	4.7%	4.7%	5.1%	5.0%	5.8%	4.7%	4.7%	5.1%	5.0%
Airport and navigation fees	905	221	237	281	225	964	225	239	286	231	981	232	246	295	238	1010
% Sales	5.6%	5.4%	5.5%	5.2%	5.3%	5.3%	5.1%	5.1%	4.9%	5.1%	5.0%	5.0%	5.0%	4.7%	5.0%	4.9%
Communications and information tech	254	79	67	79	69	294	82	69	82	72	306	82	68	81	72	303
% Sales	1.6%	1.9%	1.5%	1.5%	1.6%	1.6%	1.9%	1.5%	1.4%	1.6%	1.6%	1.8%	1.4%	1.3%	1.5%	1.5%
Other	3526	918	932	951	937	3738	970	966	1014	926	3876	1019	1017	1068	974	4078
% Sales	21.7%	22.5%	21.5%	17.6%	22.1%	20.7%	22.0%	20.5%	17.2%	20.6%	19.9%	22.0%	20.5%	17.2%	20.6%	19.9%
Regional airline expense (ex fuel and D	2137	542	588	548	554	2232	582	622	601	575	2380	611	655	633	605	2505
% Sales	13.1%	13.3%	13.6%	10.1%	13.0%	12.4%	13.2%	13.2%	10.2%	12.8%	12.2%	13.2%	13.2%	10.2%	12.8%	12.2%
Total Operating Costs	12,786	3,398	3,573	4,064	3,577	14,612	3,654	3,787	4,244	3,677	15,363	3,838	3,888	4,353	3,777	15,856
EBITDAR	2,928	397	646	1,265	543	2,851	468	809	1,563	687	3,527	500	953	1,766	817	4,035
% of sales	18.0%	9.8%	14.9%	23.4%	12.8%	15.8%	10.6%	17.2%	26.5%	15.3%	18.1%	10.8%	19.2%	28.4%	17.3%	19.7%
EPS (F.D) (\$ (Exc. Special charges)	\$ 4.05	\$ (0.19)	\$ 0.41	\$ 2.03	\$ 0.20	\$ 2.46	\$ (0.10)	\$ 0.71	\$ 2.39	\$ 0.57	\$ 3.56	\$ (0.03)	\$ 1.06	\$ 2.89	\$ 0.81	\$ 4.73

Source: RBC CM estimates, Company reports



Appendix 3: WJA Model

FY Dec. 31 (\$MM's)	2017	Q1/18	Q2/18	Q3/18E	Q4/18E	2018E	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	Q1/20E	Q2/20E	Q3/20E	Q4/20E	2020E
Traffic (RPMs in MM)	25,904	6,810	6,645	7,517	6,615	27,586	7,168	7,078	8,080	7,112	29,438	7,634	7,538	8,605	7,574	31,351
% change	8.1%	6.5%	6.1%	8.6%	4.5%	6.5%	5.3%	6.5%	7.5%	7.5%	6.7%	6.5%	6.5%	6.5%	6.5%	6.5%
Capacity (ASMs in MM)	30,998	8,029	7,922	8,880	8,109	32,940	8,456	8,477	9,546	8,717	35,196	9,048	9,070	10,214	9,327	37,659
% change	5.8%	4.3%	4.7%	10.0%	5.9%	6.3%	5.3%	7.0%	7.5%	7.5%	6.8%	7.0%	7.0%	7.0%	7.0%	7.0%
Load Factor in (%)	83.6%	84.8%	83.9%	84.6%	81.6%	83.7%	84.8%	83.5%	84.6%	81.6%	83.6%	84.4%	83.1%	84.2%	81.2%	83.2%
change (%pts)	1.8%	1.8%	1.1%	-1.1%	-1.1%	0.2%	0.0%	-0.4%	0.0%	0.0%	-0.1%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%
Yield (cents per RPM)	17.40	17.50	16.36	16.78	18.04	17.16	17.83	16.69	17.12	18.40	17.50	18.10	16.94	17.37	18.68	17.76
% change	1.1%	0.3%	-3.2%	-4.4%	2.2%	-1.4%	1.9%	2.0%	2.0%	2.0%	2.0%	1.5%	1.5%	1.5%	1.5%	1.5%
RASM (Revenue per unit of capacity, cents)	14.5	14.8	13.7	14.2	14.7	14.4	15.1	13.9	14.5	15.0	14.6	15.3	14.1	14.6	15.2	14.8
CASM (excl. fuel) (cents)	10.1	10.6	10.3	9.5	10.3	10.2	10.9	10.3	9.6	10.4	10.3	10.9	10.5	9.9	10.3	10.4
Total Revenues	4,506.7	1,191.7	1,087.6	1,260.9	1,193.3	4,733.5	1,278.2	1,181.4	1,382.9	1,308.7	5,151.2	1,381.7	1,277.1	1,494.9	1,414.7	5,568.4
% change	9.3%	6.9%	2.8%	3.8%	6.6%	5.0%	7.3%	8.6%	9.7%	9.7%	8.8%	8.1%	8.1%	8.1%	8.1%	8.1%
Airport Operations	609.3	172.9	161.8	139.8	168.1	642.6	182.1	166.5	144.5	180.7	673.8	194.9	178.2	154.7	193.3	721.0
% change	5%	2%	5%	10%	6%	5%	5%	3%	3%	7%	5%	7%	7%	7%	7%	7%
Aircraft Fuel	950.0	281.2	302.3	343.3	304.9	1231.6	305.6	323.0	355.6	327.7	1311.9	342.7	336.8	367.3	338.0	1384.9
% change	24%	19%	34%	44%	21%	30%	9%	7%	4%	7%	7%	12%	4%	3%	3%	6%
Maintenance	242.6	63.4	59.4	72.3	61.7	256.7	66.8	61.1	74.7	66.3	268.9	71.5	65.4	80.0	70.9	287.7
% change	5%	2%	5%	10%	6%	6%	5%	3%	3%	8%	5%	7%	7%	7%	7%	7%
Sales & Distribution	463.9	117.1	114.8	139.8	119.3	491.0	123.4	118.2	144.5	128.2	514.3	132.0	126.4	154.7	137.2	550.3
% change	5%	2%	5%	10%	6%	6%	5%	3%	3%	8%	5%	7%	7%	7%	7%	7%
Marketing, General & Administrative	254.9	65.8	62.6	76.3	65.1	269.8	69.3	64.5	78.8	69.9	282.6	74.2	69.0	84.4	74.8	302.3
% change	5%	2%	5%	10%	6%	6%	5%	3%	3%	8%	5%	7%	7%	7%	7%	7%
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	595.1	154.0	146.1	177.9	151.8	629.8	162.1	150.4	184.0	163.2	659.7	173.5	160.9	196.8	174.6	705.9
% change	5%	2%	5%	10%	6%	6%	5%	3%	3%	8%	5%	7%	7%	7%	7%	7%
In-Flight	243.2	63.6	59.5	72.4	61.8	257.3	67.0	61.2	74.9	66.4	269.5	71.7	65.5	80.1	71.1	288.4
% change	5%	2%	5%	10%	6%	6%	5%	3%	3%	8%	5%	7%	7%	7%	7%	7%
Employee Profit Sharing	46.8	6.4	-3.3	8.3	4.5	15.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDAR (after profit sharing)	1,001.7	200.9	117.9	215.4	190.5	724.8	204.0	133.8	268.2	224.4	830.3	216.9	144.6	291.5	274.7	927.7
% of sales	22.2%	16.9%	10.8%	17.1%	16.0%	15.3%	16.0%	11.3%	19.4%	17.1%	16.1%	15.7%	11.3%	19.5%	19.4%	16.7%
EPS F.D.	2.37	0.32	(0.18)	0.40	0.26	0.80	0.26	(0.13)	0.61	0.35	1.08	0.27	(0.12)	0.68	0.59	1.42

Source: Company Reports; RBC Capital Markets Estimates



Appendix 4: CHR Model

FY Dec 31	2017A	Q1/18	Q2/18	Q3/18	Q4/18	2018	Q1/19E	Q2/19E	Q3/19E	Q4/19E	2019E	Q1/20E	Q2/20E	Q3/20E	Q4/20E	2020E
Billable Block Hours ('000s)	359,337	88,153	90,639	96,879	89,980	365,651	88,153	90,639	96,879	89,980	365,651	88,153	90,639	96,879	89,980	365,651
% change	4.8%	4.3%	2.1%	0.2%	0.7%	1.8%	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	1,352	348	378	367	359	1,451	331	350	341	333	1,355	349	370	358	348	1,425
% change	5.9%	8.7%	13.7%	6.7%	0.7%	7.3%	-4.9%	-7.4%	-6.9%	-7.1%	-6.6%	5.7%	5.6%	5.0%	4.5%	5.2%
Salaries, wages and benefits	445	117	109	113	103	443	115	107	112	103	438	115	108	115	103	441
% Sales	33%	34%	29%	31%	29%	31%	35%	31%	33%	31%	32%	33%	29%	32%	30%	31%
Depreciation and amortization	103	30	30	30	31	121	37	41	42	44	163	51	52	53	53	210
% Sales	8%	9%	8%	8%	9%	8%	11%	12%	12%	13%	12%	15%	14%	15%	15%	15%
Aircraft maintenance	193	54	75	56	56	241	52	74	52	53	231	53	78	53	53	237
% Sales	14%	15%	20%	15%	16%	17%	16%	21%	15%	16%	17%	15%	21%	15%	15%	17%
Airport and navigation fees	167	40	43	45	43	170	40	43	45	45	174	40	44	46	47	177
% Sales	12%	11%	11%	12%	12%	12%	12%	12%	13%	14%	13%	12%	12%	13%	14%	12%
Aircraft rent	99	24	24	25	25	98	0	0	0	0	0	0	0	0	0	0
% Sales	7%	7%	6%	7%	7%	7%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Terminal handling	28	6	5	5	5	22	6	5	5	5	22	6	5	5	5	22
% Sales	2%	2%	1%	1%	1%	1%	2%	1%	1%	2%	2%	2%	1%	1%	2%	2%
Other	144	32	38	37	33	140	30	37	33	32	132	30	37	33	32	132
% Sales	11%	9%	10%	10%	9%	10%	9%	10%	10%	10%	10%	9%	10%	9%	9%	9%
Total Operating Expenses	1,179	303	324	311	297	1,235	280	307	290	283	1,160	297	324	305	295	1,220
Operating Income	173	45	54	56	62	217	50	43	51	51	195	52	46	54	53	205
EBITDAR	376	99	108	111	118	435	87	84	93	94	358	104	98	107	107	415
% of sales	27.8%	28.4%	28.6%	30.2%	32.8%	30.0%	26.2%	24.0%	27.3%	28.2%	26.4%	29.7%	26.6%	29.7%	30.7%	29.1%
EBITDA	276	75	84	86	93	337	87	84	93	94	358	104	98	107	107	415
% of sales	62.1%	63.5%	76.9%	76.0%	89.7%	76.1%	75.2%	78.6%	82.9%	90.9%	81.7%	90.2%	91.0%	92.9%	103.2%	94.1%
Net Income	181	-9	10	37	2	40	12	12	23	4	50	4	3	5	4	17
EPS (F.D) (\$) (Excluding Special charges)	\$1.33	\$0.04	\$0.12	\$0.31	\$0.01	\$0.47	\$0.08	\$0.08	\$0.16	\$0.03	\$0.35	\$0.03	\$0.02	\$0.03	\$0.03	\$0.12
CFPS (F.D) (\$) (Excluding Special charges)	\$1.89	\$0.43	\$0.52	\$0.50	\$0.55	\$1.98	\$0.46	\$0.37	\$0.46	\$0.33	\$1.62	\$0.39	\$0.39	\$0.40	\$0.40	\$1.59

Source: Company reports, RBC Capital Markets estimates



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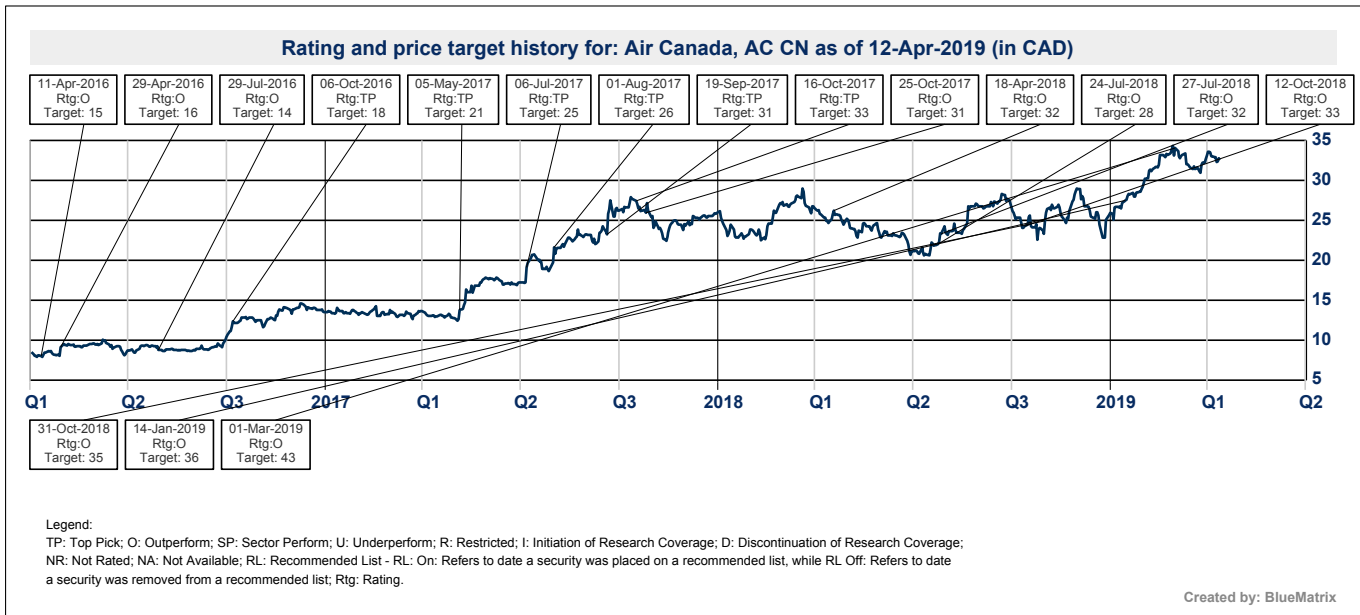
Risk Rating

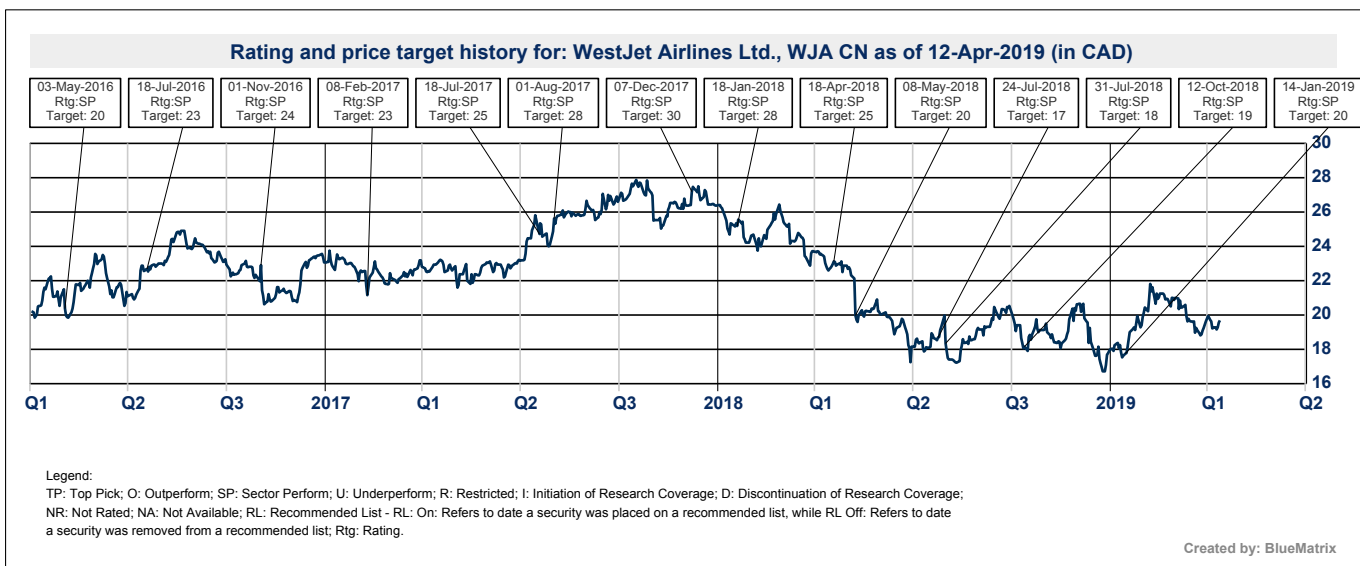
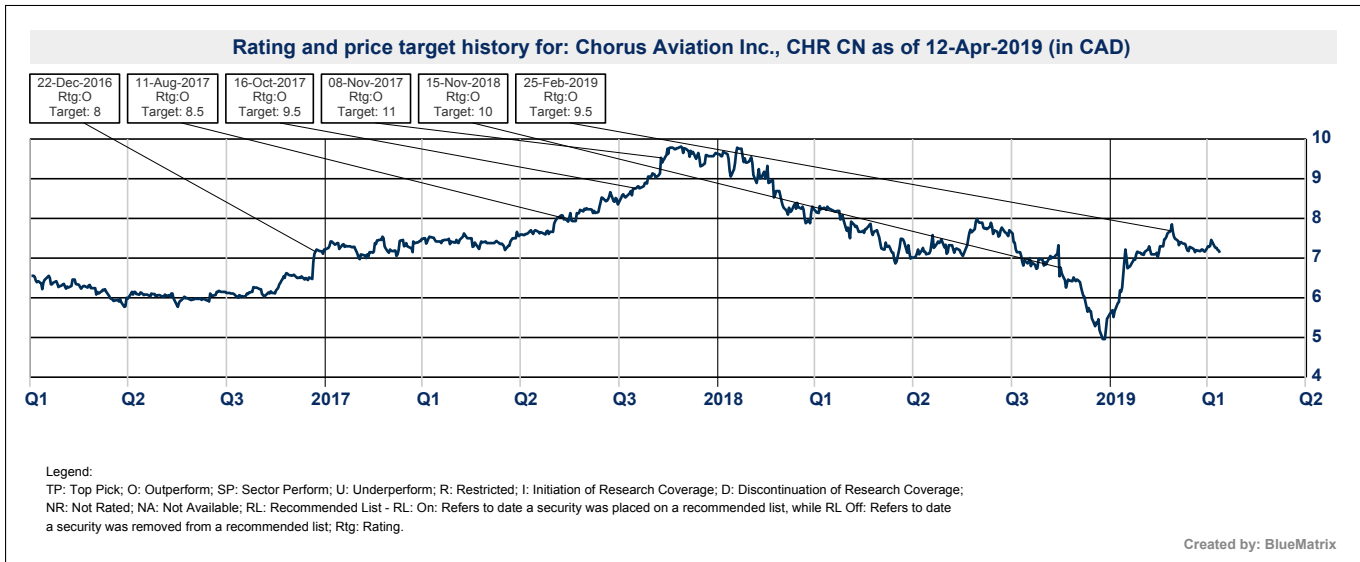
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Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
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Air Canada

Valuation

Our \$43.00 target price is based on a 4.4x EV/EBITDAR multiple applied to our 2020 estimates, which is a 1.1x discount to the group average multiple. Our base case reflects the following assumptions: Our base case reflects the following assumptions: (1)



stable yields with the changing business mix related to AC's strategic transformation partially offset by premium segment focus; (2) fleet expansion and strong demand to drive traffic growth; and (3) jet fuel prices to remain relatively range-bound at current levels. The implied return to our price target supports our Outperform rating.

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 \$9.50 price target is derived from a sum-of-the-parts valuation. We value Chorus's core-CPA segment at a 6.0x EV/EBITDAR multiple (in line with peers) 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 \$9.50 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 \$20 price target is based on an EV/EBITDAR approach whereby we apply a 4.3x multiple to our 2020 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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