

WestJet (WJA-T) Last Call Before Takeoff

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We are initiating coverage of WestJet with a Buy rating and a 12-month target price of \$35.00. In summary, our recommendation is based on the following:

- Canada's low-cost carrier has been successful in making travel very affordable for almost 20 years. The company is on a new journey to expand the affordability to underserved cities across Canada as well as connecting its domestic network to international destinations.
- WestJet Encore to Drive Long-Term Growth:** We believe WestJet is just at the beginning of a multi-year strategy of expanding Encore into underserved domestic and transborder routes. Encore operates at a lower cost than the mainline and generates over **40%** in traffic growth when it enters new markets. As Encore grows its fleet to up to 45 Q400s by 2018, it could provide significant upside to earnings.
- International Markets Represent a \$12 Billion Opportunity:** We see a potential for WJA to build on the success of its foray into international travel to grow its market share. We estimate that a 10% gain in market share can add in excess of \$300 million of EBITDAR, a potential **30%** uplift to our 2015 estimates level. The company recently added London-Gatwick as its third transatlantic destination, which we believe could serve as a linchpin for future destinations across Europe.
- Ancillary Revenue Growth:** With the introduction of first checked-baggage fee, WestJet accelerated the growth of its highly profitable ancillary revenue. Additional entertainment offerings on board of the Boeing aircraft should provide another high-margin source of ancillary revenue. With WJA's ~20 million guests a year, every additional dollar of ancillary revenue per passenger should translate into at least \$5 million of EBITDAR.
- Selling Is Overdone:** WJA is down ~35% from recent peaks on concerns about capacity growth and RASM declines. We believe the current stock price reflects these concerns. However, it is our opinion that RASM declines are a temporary result of the initial phase of expansion into new markets. WestJet is trading at 7.1x 2015E P/E with low cost carriers peers trading at ~12.5x P/E. We apply a 10.0x multiple on FY16E EPS to arrive at our \$35.00 12-month target price. **BUY!**

Initiating Coverage

BUY \$35.00

| | |
|-----------------------------|-------------------|
| Price (C\$) | \$22.53 |
| 12-month Target Price (C\$) | \$35.00 |
| Potential Return | 58% |
| 52 Week Price Range (C\$) | \$22.53 - \$34.95 |
| Yield | 2.5% |

Estimates

| YE: Dec 31 | FY14 | FY15E | FY16E |
|----------------|-------|-------|-------|
| Revenue (\$MM) | 3,977 | 4,120 | 4,504 |
| EBITDAR (\$MM) | 894 | 1,046 | 1,133 |
| FD EPS | 2.46 | 3.16 | 3.50 |

Valuation

| | FY14 | FY15E | FY16E |
|------------|------|-------|-------|
| EV/Sales | 1.1x | 1.0x | 0.9x |
| EV/EBITDAR | 4.7x | 4.0x | 3.7x |
| P/E | 9.2x | 7.1x | 6.4x |

Stock Data

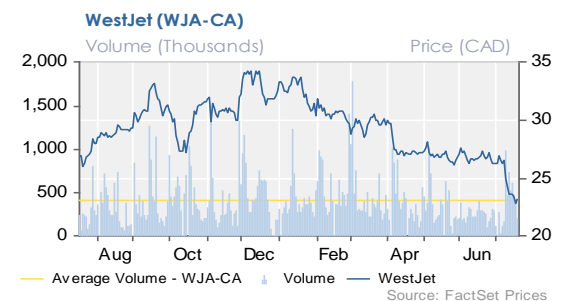
| | |
|-------------------------|---------|
| Shares Outstanding (MM) | |
| Basic | 127 |
| FD | 129 |
| Market Cap (\$MM) | |
| Basic | \$2,864 |
| FD | \$2,896 |
| Adj. Net Debt (MM) | \$1,357 |
| EV (MM) | \$4,221 |

About the Company

WestJet Airlines Ltd. provides passenger air transportation services. It offers scheduled flights, vacation packages and cargo service across North America, Central America and the Caribbean. The company is headquartered in Calgary, Canada.

All prices in C\$ unless otherwise stated

Stock Performance



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Investment Thesis

Flying has quickly become the go-to, and safest method for us to get around the globe. The deregulation of air travel in North America (1978 in USA and 1987 in Canada) gave industry participants the freedom to set prices and optimize their routes. While one might have expected such deregulation to allow the carriers to become more profitable, that hasn't been the case and until recently, the industry had been synonymous with unprofitability. However, a few pioneers managed to buck the trend over that period, led by the champion of the low-cost carrier model Southwest Airlines (LUV-US, not covered). Southwest's successful strategy revolved around competing on price, while maintaining a streamlined cost base and capacity, which has resulted in 42 consecutive years of profitability.

In the early 1990s, Canada's airline industry was dominated by Air Canada (Buy rated, \$20.00 TP) and Canadian Airlines (acquired by Air Canada in 2000). Calgary-based entrepreneurs saw an opportunity to duplicate Southwest's model and started WestJet in 1996. In the beginning, WestJet had only three aircraft that were flown to five Canadian cities. The company became successful by coupling the low-cost model with an employee-profit sharing model. Almost 20 years later, WestJet generates ~\$4 billion in revenue and carries ~20 million passengers a year.

"Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning" (Churchill).

We believe WestJet stands on the cusp of what could be another multi-year growth trajectory propelled by the expansion of its mainline into more international markets and its low-cost carrier, Encore, into additional Canadian and transborder destinations.

With the addition of extended-range B767 aircraft, WestJet can now expand more aggressively into international destinations, leveraging its domestic passengers as a feed. The company recently added London-Gatwick as its third transatlantic destination, which we believe could serve as a linchpin for future destinations across Europe. We estimate that a 10% gain in market share can add in excess of \$300 million of EBITDAR, growth of close to **30%** compared to our 2015 estimates.

Additionally, we expect Encore to offer additional Canadian and transborder destinations.

We also expect WestJet to continue to show strong yoy growth in ancillary revenues. With WJA's ~20 million guests a year, every additional dollar of ancillary revenue per passenger could translate into at least \$5 million of EBITDAR.

We believe fair value for the company's assets is between C\$35.00-C\$40.00 (i.e. 10-12x P/E). Consequently, with the stock trading at C\$22.53 which represents 7.1x 2015E EPS (post 2008 financial crisis low multiple), we believe the shares are undervalued.

We are initiating coverage of WestJet with a Buy rating and C\$35.00 12-month target price, based on 10.0x our FY16 EPS forecast.

Brief History of WestJet

WestJet was founded in 1996 by Clive Beddoe and other Calgary entrepreneurs as a low-cost Western Canadian regional carrier. It started flying with three aircraft to five cities. In 2000, WJA expanded its network to Eastern Canada and added Hamilton, Moncton and Ottawa to its destinations. In 2004, WJA started its transborder service and started flying to seven American cities. WestJet entered the packaged vacation market and started flying to international destinations in 2006. The company has been very proactive in establishing codeshare agreements and it has signed up 13 world leading airlines as codeshare partners. Prior to 2013, WestJet had only one class of seats with no business class. In 2013, WestJet introduced its premium offering "Plus" seats, which come with extra leg room, priority boarding, refund flexibility and complimentary meals and drinks on board. The plus offering has been successful and WJA is making additional enhancements in late 2015.

Today, WestJet offers scheduled service to over 90 destinations in North and Central America, the Caribbean and Europe. WestJet operates a modern fleet comprised of Boeing 767-300 (starting in July 2015), and the Boeing Next-Generation 737-600, 737-700 and 737-800 aircraft. WestJet Encore operates a fleet of Bombardier Q400 NextGen turboprops. The company has a ~36% market share of the Canadian domestic market, ~21% of the transborder traffic and an insignificant share of the transatlantic market. In 2014, WestJet completed its first transatlantic flight from St. John, NL to Dublin, Ireland.

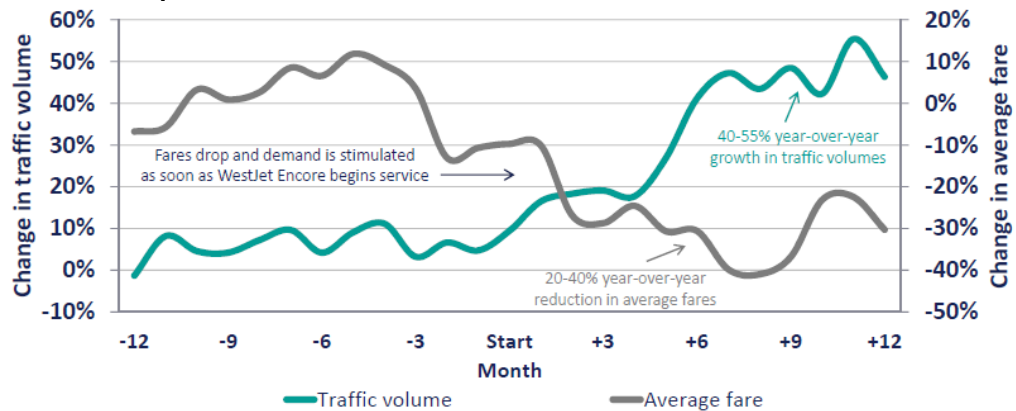
Revenue Growth Opportunities

WestJet Encore

WestJet Encore is the regional airline operator for WestJet, currently operating a fleet of 21 Q400 aircraft.

- Encore is expected to fly to 31 destinations (up from 28 currently) by the end of 2015. As Encore grows its fleet to up to 45 Q400s by 2018, it could provide significant upside to earnings.
- We believe new destinations could potentially include smaller underserved airports in the US and Canada, thus potentially boosting traffic on these routes. Based on IATA data (Exhibit 1), once WestJet enters a new route, passenger traffic on that route increases by over 40% yoy and average fares decrease by 20-40% yoy.
- WestJet is operating the smaller Q400s at a lower cost allowing it to be very competitive when entering new markets.

Exhibit 1: Impact of WestJet Encore on Traffic Volumes on New Routes



Source: Company reports, 2015 and IATA.

- Additionally, we believe that ~50% of Encore's passengers use a connecting flight with WestJet's mainline, hence new routes could potentially boost WestJet's system-wide load factors further. Additional passengers on a route come with a very high margin.
- For example, while exploring the potential for new destinations, we looked at the option for a flight between Winnipeg and Minneapolis:
 - Currently, only Delta airlines (DAL-US, not covered, not rated), a WestJet partner, has direct flights between Winnipeg and Minneapolis.
 - At the same time, WestJet has 26 daily departures out of Winnipeg by our count, four of which we believe are operated by WestJet Encore.
 - While we acknowledge that Delta is an important partner for WestJet, we believe that opportunities exist for the company to profitably open new routes.

International Expansion

We expect international expansion to be a major driver for WestJet's growth over the next few years.

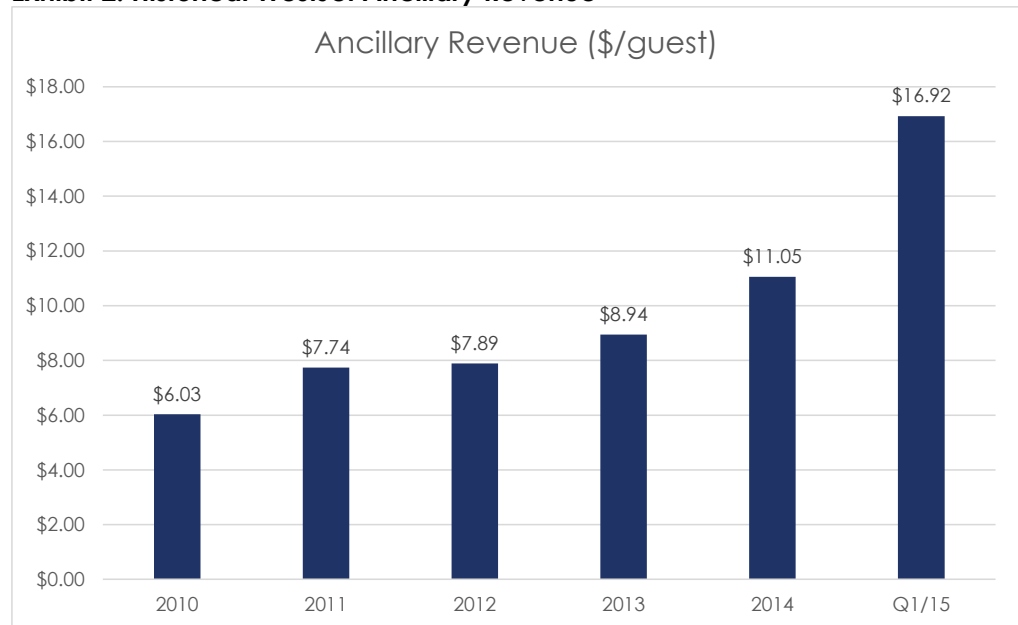
- International markets represent a \$12 billion opportunity for WestJet. We estimate that a 10% gain in market share can add in excess of \$300 million of EBITDAR, a potential **30%** uplift to our 2015 estimates level.
- We believe WestJet can leverage its strong position in the domestic market (~36% market share) to feed traffic into its new international destinations where it has insignificant market share.
- After what the company described as "an extremely successful launch" for its first transatlantic destination, WestJet announced its second such destination, Glasgow, UK, in May 2015. The leg originates from Halifax, NS utilizing B737-700NG (range > 6,000 km).

- More importantly, WestJet recently announced London-Gatwick as its first transatlantic destination for the B767. We believe that this is a great destination for connecting to other routes in Europe.
- If these new international routes prove successful, which we believe they will, we see an opportunity for WestJet to move quickly by leasing used planes for additional transatlantic routes without having to commit large capital investments.
- WJA currently has codeshare arrangements with some of the largest European airlines and we believe it can analyze historical bookings data to uncover opportunities for additional international destinations.
- To give an example of the potential EBITDAR contribution of one B767, consider the following:
 - 262 seats = 24 Plus seats + 238 regular seats (18 seats with extended leg room).
 - For a mid-July (July 15 - 22) return trip to Glasgow from Toronto, price for Flex fare is \$1,386 and Plus fare is \$1,780.
 - Limited seats are available which leads us to believe that load factor is well above 90%.
 - Assumed daily contribution from the Glasgow flight at 90% load factor:
 - 22 plus seats sold at \$1,780 = \$39,160
 - Regular seats sold at \$1,386 = \$296,604
 - Total revenue contribution per daily return flight = **\$335,764**
 - Applying WJA's EBITDAR margin of 26%, it translates into an annual EBITDAR contribution of ~\$32 million.
 - At a more conservative 80% load factor, annual EBITDAR contribution could be ~\$25 million.
- With the B767 flying range, we see an opportunity for WestJet to add popular destinations in Asia (e.g. Beijing, Shanghai, Hong Kong), flying out from Calgary and/or Vancouver. Such routes could provide a significant uplift to WestJet's topline revenue and enhance EBITDAR.
- With \$1.4 billion of cash and \$300 million of undrawn credit lines, we believe WJA is well positioned to execute on an international expansion strategy as we outlined above. If WestJet was to secure three more B767 aircraft in 2016/2017, it could contribute an additional \$75 million to EBITDAR, a 7% upside to our estimates.

Ancillary Revenues

- In Q1/FY15, WJA reported ancillary revenues of \$16.92 per guest which is 60.4% higher than Q1/FY14. This was primarily driven by the introduction of a first checked-baggage fee in late 2014, which WJA expects to add \$100 million in annual revenue.

Exhibit 2: Historical WestJet Ancillary Revenue



Source: Company reports

- Additionally, WJA expects its entire Boeing fleet to be "entertainment ready" (i.e. Wi-Fi, streaming video and music to passenger's own devices) by the end of 2016.
- Using Air Canada's Gogo-powered Wi-Fi service as a benchmark (i.e. \$5/hour), we calculate the following:
 - In 2014, WestJet carried ~20 million guests.
 - If we assume 10% of these guests opt to purchase WiFi at \$10/flight, the service can generate an additional \$20 million of revenue.
 - Using WJA's current EBIDTAR margin of 26%, which we believe to be conservative as ancillary services usually carry a much higher margin, this can translate into at least ~\$5 million of annual EBIDTAR contribution. Further upside to these margins could come from the "bring your own device" policy, as WestJet will eliminate all on-board mounted screens which will save fuel costs due to reduced weight of the aircraft.
 - We also note that WJA will have more pricing power over its service given it will be operated internally (while Gogo controls pricing on Air Canada's flights) and will also offer

more value-added-services such as video on demand, live TV and music streaming, allowing for premium pricing.

Fare Bundles & Plus Seating

In 2013, WestJet introduced fare bundles which offer additional flexible options for guests at an extra cost.

- The Plus offering allows extra leg room and many complementary options. WestJet continues to add additional features to the Plus offering such as no middle seat on B737 starting in September 2015.
- The initial expectations for additional revenues from the fare bundles were \$50-\$80 million – we believe current run rate is likely closer to \$100 million. To demonstrate the competitiveness of this offering, consider the following:
 - For a trip (one way) from Toronto to Vancouver in mid-June, 2015:
 - WJA flex fare was ~\$330 which was very closely matched by AC's Tango fare.
 - Plus fare was ~\$640 which was well below AC's Latitude fare of \$1,100.
 - We believe with the removal of the middle seat, WJA can offer a compelling deal for business travelers at a fraction of the cost.
 - Our checks indicate the price difference has not narrowed for flights in November – there is an opportunity for price increases for Plus fares as guests become aware of the new features.
 - As the plus seats are not classified as "Business Class", WestJet could offer additional convenience for frequent business travelers without the extra expense.

Cost Opportunities

Fleet Modernization

Having newer planes allows WestJet to spend less on maintenance and leverage the enhanced fuel efficiencies and new features.

- In 2014, WJA added seven new 737-800NG and seven new Bombardier Q400s.
- Additionally in Q1/FY15, WJA took deliveries of four Q400 aircraft and three B737-800NG to end the quarter with 126 aircraft. The remaining two B737-700NG, which were sold to Southwest Airlines, are scheduled to be delivered in Q2/FY15.
- With the aforementioned, WestJet's fleet is the youngest compared to its main competitors':
 - WestJet - 6.5 years
 - Air Canada - 14.2 years
 - Southwest - 11.8 years
 - JetBlue - 8 years
- WestJet expects to take delivery of 16 additional aircraft in 2015 which will bring the average age down even further.

Fuel and FX Impact

Aircraft fuel expense, which is currently fully unhedged, represented 31.1% of WJA's 2014 operating expenses. Similar to its peers, WJA benefited from recent declines in oil prices as fuel expense declined 26% yoy in Q1/FY15. We expect fuel expense to continue to be lower yoy in Q2 as oil prices haven't rebounded. For the full year 2015, WestJet estimates an US\$8 million annual impact for every US\$1 change per barrel in the price of WTI crude oil.

WestJet reports in Canadian dollars; however, it incurs expenses in US dollars. These expenses include aircraft fuel, leasing, vacation packages and maintenance. WJA estimates that a \$0.01 increase in the CAD/USD exchange rate will increase annual expenses by \$9 million (\$6.3 million in fuel expenses and \$2.7 million in other US denominated expenses).

Valuation: What's it Worth

We are initiating coverage of WestJet with a Buy rating and a 12-month target price of \$35.00 based on 10x our FY16 EPS forecast of \$3.50.

Based on our analysis, WestJet is currently trading at 7.5x NTM consensus EPS estimate representing the lowest level in 10 years outside of the financial crisis.

Exhibit 3: Historical WestJet Trading Multiple

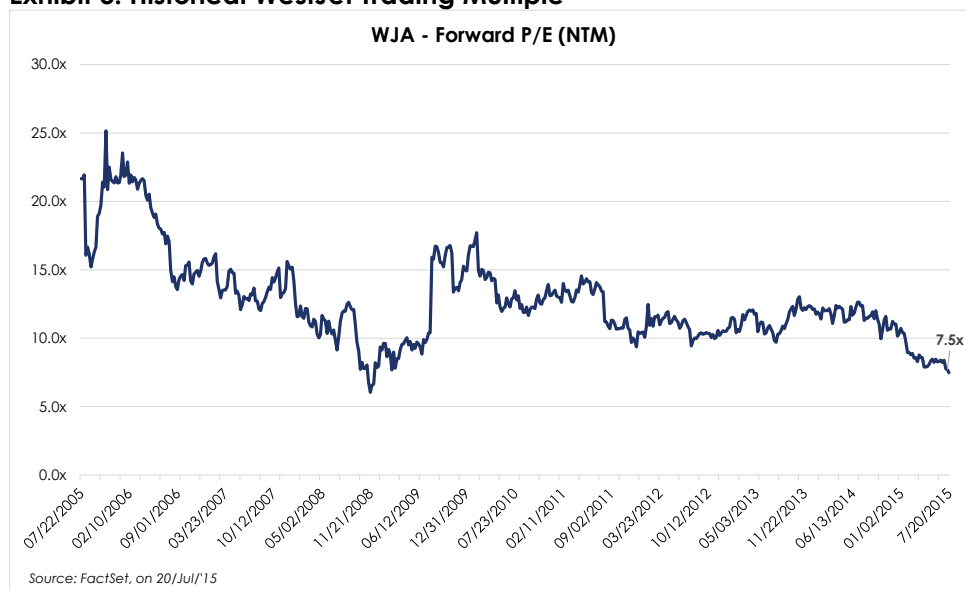


Exhibit 4: P/E Multiple Sensitivity

| P/E Sensitivity | Share Price | 2015E | 2016E |
|----------------------|----------------|---------------|---------------|
| EPS Estimate | | \$3.16 | \$3.50 |
| Current Price | \$22.53 | 7.1x | 6.4x |
| | \$23.00 | 7.3x | 6.6x |
| | \$24.00 | 7.6x | 6.9x |
| | \$25.00 | 7.9x | 7.1x |
| | \$26.00 | 8.2x | 7.4x |
| | \$27.00 | 8.6x | 7.7x |
| | \$28.00 | 8.9x | 8.0x |
| | \$29.00 | 9.2x | 8.3x |
| | \$30.00 | 9.5x | 8.6x |
| | \$31.00 | 9.8x | 8.9x |
| | \$32.00 | 10.1x | 9.1x |
| | \$33.00 | 10.5x | 9.4x |
| | \$34.00 | 10.8x | 9.7x |
| Target Price | \$35.00 | 11.1x | 10.0x |
| | \$36.00 | 11.4x | 10.3x |
| | \$37.00 | 11.7x | 10.6x |
| | \$38.00 | 12.0x | 10.9x |
| | \$39.00 | 12.4x | 11.1x |
| | \$40.00 | 12.7x | 11.4x |

Source: Beacon Estimates and FactSet

**↑More passengers + ↑Ancillary Revenue
= ↑Earnings → Higher Multiple → Higher
Stock Price. Buy - \$35.00 Target Price.**

We are initiating coverage of WestJet with a BUY rating and a \$35.00 12-month target price, representing a projected total return of 58%. In summary, our recommendation is based on the following:

- a) WestJet Encore will enable the company to continue "Onward and Upward" (the theme of WJA's 1998 annual report). As Encore enters new markets, traffic increases 40-55%, fares become lower and WestJet's main airline benefits from connecting passengers. With an estimated 50% of Encore passengers connecting on a mainline flight, we expect higher load factors to boost margins.
- b) The Canadian international travel market is a **\$12 billion** opportunity into which WestJet has barely dipped its toes in. An additional 10% market share can lead to \$1.2 billion of revenue and over **\$300 million** in additional EBITDAR, a potential **30%** uplift to our 2015 estimates level. Domestic load factors could also potentially benefit from this international expansion.
- c) We expect the next 3 quarters to show strong yoy growth in ancillary revenues driven by the recent introduction of a first checked-baggage fee. By the end of 2015, the new Panasonic entertainment system should be fully operational on all Boeing aircraft. This should lead to an above average growth in the high-margin ancillary revenues.
- d) In our view, the recent share price decline of ~35% off 52-week high is excessive and does not reflect the long-term attractive fundamentals of WestJet. Combined with our positive outlook on WestJet's earnings growth, we believe the company trades at a very depressed valuation.

Market Comparables

Airlines Comparables

| Company | Ticker | Currency | Year End | Last Price | Market Cap. (MM) | Adjusted Net Debt (MM) | EV (MM) | Adj. Net Debt/Capitalization | Sales | | | EBITDAR | | | EPS (FD) | | | EV/EBITDAR | | | P/E | | |
|--|---------------|------------|------------|--------------|------------------|------------------------|--------------|------------------------------|--------------|--------------|--------------|------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| | | | | | | | | | 2014A | 2015E | 2016E | 2014A | 2015E | 2016E | 2014A | 2015E | 2016E | 2014A | 2015E | 2016E | 2014A | 2015E | 2016E |
| WestJet | WJA-CA | CAD | Dec | 22.53 | 2,864 | 1,357 | 4,221 | 47% | 3,977 | 4,120 | 4,504 | 894 | 1,046 | 1,133 | 2.46 | 3.16 | 3.50 | 4.7x | 4.0x | 3.7x | 9.2x | 7.1x | 6.4x |
| Legacy Carriers | | | | | | | | | | | | | | | | | | | | | | | |
| Air Canada | AC-CA | CAD | Dec | 12.18 | 3,496 | 5,197 | 8,693 | 149% | 13,272 | 14,010 | 14,233 | 1,671 | 2,364 | 3,082 | 1.81 | 3.73 | 5.96 | 5.2x | 3.7x | 2.8x | 6.7x | 3.3x | 2.0x |
| Air France-KLM SA | AF-PAR | EUR | Dec | 6.65 | 1,967 | 13,334 | 15,340 | 678% | 24,912 | 25,416 | 25,488 | 2,269 | 2,976 | 3,381 | (0.67) | (0.43) | 1.13 | 6.8x | 5.2x | 4.5x | - | - | 5.9x |
| Alaska Air Group, Inc. | ALK-US | USD | Dec | 74.14 | 9,561 | 212 | 9,773 | 2% | 5,368 | 5,634 | 6,001 | 1,378 | 1,713 | 1,736 | 4.42 | 6.16 | 6.38 | 7.1x | 5.7x | 5.6x | 16.8x | 12.0x | 11.6x |
| American Airlines Group, Inc. | AAL-US | USD | Dec | 40.55 | 28,093 | 18,059 | 46,152 | 64% | 42,650 | 41,767 | 43,224 | 7,819 | 9,890 | 9,694 | 3.93 | 8.85 | 6.72 | 5.9x | 4.7x | 4.8x | 10.3x | 4.6x | 6.0x |
| Cathay Pacific Airways Limited | 293-HK | HKD | Dec | 19.56 | 76,946 | 47,295 | 124,372 | 61% | 105,991 | 109,796 | 116,581 | 17,250 | N/A | N/A | 0.80 | 1.78 | 2.02 | 7.2x | - | - | 24.4x | 11.0x | 9.7x |
| Delta Air Lines, Inc. | DAL-US | USD | Dec | 44.09 | 35,069 | 6,226 | 41,295 | 18% | 40,204 | 40,782 | 41,914 | 6,768 | 8,396 | 9,000 | 0.78 | 4.45 | 5.35 | 6.1x | 4.9x | 4.6x | 56.5x | 9.9x | 8.2x |
| Deutsche Lufthansa AG | LHA-DE | EUR | Dec | 12.84 | 5,940 | 2,390 | 8,401 | 40% | 30,011 | 31,075 | 31,603 | 2,410 | 2,923 | 3,179 | 0.12 | 2.02 | 2.24 | 3.5x | 2.9x | 2.6x | 107.0x | 6.3x | 5.7x |
| International Consolidated Airlines Group SA | IAG-GB | GBP | Dec | 5.71 | 11,632 | 4,280 | 16,152 | 37% | 16,249 | 15,603 | 16,081 | 3,158 | 4,257 | 4,661 | 0.37 | 0.52 | 0.63 | 5.1x | 3.8x | 3.5x | 15.3x | 10.9x | 9.1x |
| Qantas Airways Limited | QAN-AU | AUD | Jun | 3.64 | 7,995 | 4,631 | 12,633 | 58% | 15,352 | 15,760 | 16,145 | 1,483 | 2,819 | 3,549 | (1.29) | 0.30 | 0.50 | 8.5x | 4.5x | 3.6x | - | 12.2x | 7.2x |
| Singapore Airlines Ltd. | C6L-SG | SGD | Mar | 11.73 | 13,722 | 2,157 | 16,345 | 16% | 15,566 | 15,448 | 15,902 | 3,343 | N/A | N/A | 0.31 | 0.67 | 0.83 | 4.9x | - | - | 37.6x | 17.6x | 14.1x |
| Transat A.T. Inc. Class B | TRZ.B-CA | CAD | Oct | 7.91 | 306 | 519 | 825 | 169% | 3,752 | 3,587 | 3,572 | 179 | 161 | 203 | 0.85 | 0.44 | 1.23 | 4.6x | 5.1x | 4.1x | 9.3x | 18.0x | 6.4x |
| United Continental Holdings, Inc. | UAL-US | USD | Dec | 55.35 | 21,144 | 12,300 | 33,444 | 58% | 38,901 | 38,362 | 39,347 | 5,326 | 7,592 | 7,456 | 2.93 | 10.60 | 8.67 | 6.3x | 4.4x | 4.5x | 18.9x | 5.2x | 6.4x |
| Average | | | | | | | | 113% | | | | | | | | | | 5.9x | 4.5x | 4.1x | 30.3x | 10.1x | 7.7x |
| Average Excluding Outliers | | | | | | | | 117% | | | | | | | | | | 5.9x | 3.3x | 3.1x | 23.6x | 9.6x | 7.9x |
| Low Cost Carriers | | | | | | | | | | | | | | | | | | | | | | | |
| Allegiant Travel Company | ALGT-US | USD | Dec | 203.04 | 3,482 | 254 | 3,737 | 7% | 1,137 | 1,260 | 1,422 | 300 | 450 | 458 | 4.86 | 11.91 | 12.18 | 12.5x | 8.3x | 8.2x | 41.8x | 17.1x | 16.7x |
| easyJet plc | EZJ-GB | GBP | Sep | 17.21 | 6,836 | 253 | 7,089 | 4% | 4,527 | 4,671 | 4,890 | 823 | 902 | 971 | 1.13 | 1.28 | 1.41 | 8.6x | 7.9x | 7.3x | 15.2x | 13.5x | 12.2x |
| JetBlue Airways Corporation | JBLU-US | USD | Dec | 22.88 | 7,167 | 2,535 | 9,702 | 35% | 5,817 | 6,435 | 7,057 | 982 | 1,630 | 1,757 | 1.19 | 1.79 | 2.00 | 9.9x | 6.0x | 5.5x | 19.2x | 12.8x | 11.4x |
| Ryanair Holdings Plc | RY4B-IE | EUR | Mar | 12.40 | 17,077 | (336) | 16,740 | -2% | 5,654 | 6,164 | 6,440 | 1,530 | 1,712 | 1,981 | 0.62 | 0.73 | 0.89 | 10.9x | 9.8x | 8.4x | 19.8x | 16.9x | 13.9x |
| Southwest Airlines Co. | LUV-US | USD | Dec | 34.31 | 22,929 | 1,167 | 24,096 | 5% | 18,605 | 19,410 | 20,603 | 3,572 | 5,053 | 4,946 | 1.64 | 3.34 | 3.36 | 6.7x | 4.8x | 4.9x | 20.9x | 10.3x | 10.2x |
| Virgin America, Inc. | VA-US | USD | Dec | 28.97 | 1,251 | 1,006 | 2,257 | 80% | 1,490 | 1,521 | 1,735 | 306 | 402 | 442 | 7.13 | 4.07 | 3.72 | 7.4x | 5.6x | 5.1x | 4.1x | 7.1x | 7.8x |
| Average | | | | | | | | 22% | | | | | | | | | | 7.7x | 5.8x | 5.3x | 21.9x | 12.5x | 10.2x |
| Average Excluding Outliers | | | | | | | | 10% | | | | | | | | | | 9.3x | 7.0x | 6.6x | 20.2x | 12.9x | 12.0x |
| Global Average | | | | | | | | 82% | | | | | | | | | | 7.1x | 5.4x | 5.0x | 26.5x | 11.1x | 9.2x |
| Global Average Excluding Outliers | | | | | | | | 47% | | | | | | | | | | 6.7x | 5.2x | 4.8x | 21.1x | 11.1x | 8.9x |

Source: FactSet, Beacon Research

Financials – Balance Sheet

| WestJet Airlines Ltd. | | | | |
|---|------------------|------------------|------------------|------------------|
| Fiscal YE December 31 | | | | |
| (\$000's) | 2013A | 2014A | 2015E | 2016E |
| Assets | | | | |
| Cash and short-term investments | 1,256,005 | 1,358,071 | 1,106,511 | 1,056,874 |
| Accounts receivable | 42,164 | 54,950 | 56,931 | 62,235 |
| Prepaid expenses and deposits | 133,263 | 144,192 | 133,941 | 133,941 |
| Unrestricted cash/Restricted Cash | 58,106 | 58,149 | 54,104 | 54,104 |
| Inventory | 36,722 | 114,964 | 151,895 | 165,115 |
| Total current assets | 1,526,260 | 1,730,326 | 1,503,381 | 1,472,269 |
| Capital assets | 2,487,734 | 2,793,194 | 3,511,262 | 4,209,775 |
| Other long-term assets | 129,469 | 122,913 | 142,114 | 142,114 |
| Total assets | 4,143,463 | 4,646,433 | 5,156,757 | 5,824,158 |
| Liabilities and Shareholders' Equity | | | | |
| Accounts payable and accrued liabilities | 543,167 | 415,562 | 418,180 | 454,576 |
| Maintenance accrual | 76,105 | 54,811 | 32,303 | 32,303 |
| Advance ticket sales | 551,022 | 575,781 | 610,063 | 670,035 |
| Non-refundable passenger credits | 46,975 | 45,434 | 48,139 | 52,871 |
| Current portion of long-term debt | 189,191 | 159,843 | 161,254 | 161,254 |
| Current portion of capital leases | 0 | 86,870 | 97,152 | 97,152 |
| Total current liabilities | 1,406,460 | 1,338,301 | 1,367,092 | 1,468,192 |
| Long-term debt | 689,204 | 1,028,820 | 1,052,583 | 1,052,583 |
| Long term liabilities | 151,245 | 204,918 | 258,505 | 258,505 |
| Future income tax | 306,714 | 296,892 | 309,857 | 309,857 |
| Total liabilities | 2,553,623 | 2,868,931 | 2,988,037 | 3,089,137 |
| Shareholders' equity | | | | |
| Share capital | 603,861 | 603,287 | 596,547 | 596,547 |
| Contributed surplus | 69,079 | 75,094 | 143,291 | 285,508 |
| Accumulated other comprehensive loss (gain) | 105 | (3,179) | (479) | (479) |
| Retained earnings | 916,795 | 1,102,300 | 1,429,361 | 1,853,445 |
| Total Shareholders' equity | 1,589,840 | 1,777,502 | 2,168,720 | 2,735,021 |
| Total liabilities and Shareholders' equity | 4,143,463 | 4,646,433 | 5,156,757 | 5,824,158 |

Source: Beacon Securities., Company Reports

Financials – Income Statement

| <i>WestJet Airlines Ltd.</i> | | | | |
|-----------------------------------|----------------|----------------|----------------|----------------|
| Fiscal YE December 31 | | | | |
| (\$000's except per share) | 2013A | 2014A | 2015E | 2016E |
| Passenger | \$3,338 | \$3,599 | \$3,697 | \$4,042 |
| Other | 325 | 377 | 423 | 461 |
| Total Revenues | \$3,662 | \$3,977 | \$4,120 | \$4,504 |
| Operating Expenses | 2,886 | 3,082 | 3,074 | 3,370 |
| EBITDAR | \$776 | \$894 | \$1,046 | \$1,133 |
| Earnings Per Share | | | | |
| Adjusted | \$2.03 | \$2.46 | \$3.16 | \$3.50 |
| OPERATING STATISTICS | | | | |
| RPM (MM) | 19,592 | 20,829 | 21,889 | 23,497 |
| ASM (MM) | 23,971 | 25,584 | 27,091 | 28,851 |
| Load Factor | 81.7% | 81.4% | 80.8% | 81.4% |
| Yield (¢) | 18.69 | 19.09 | 18.82 | 19.17 |
| CASM, ex. Fuel & Profit Share (¢) | 9.06 | 9.13 | 9.24 | 9.43 |

Source: Beacon Securities Ltd., Company Reports

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Does the analyst who prepared this research report have a position, either long or short, in any of the issuer's securities? Yes No

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Has Beacon Securities performed investment banking services in the past 12 months and received compensation for investment banking services for this issuer in the past 12 months? Yes No

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| As at June 30, 2015 | #Stocks | Distribution |
|---------------------|---------|--------------|
| Buy | 50 | 65.7% |
| Speculative Buy | 14 | 20.9% |
| Hold | 3 | 4.5% |
| Sell | 0 | 0.0% |
| Under Review | 5 | 9.0% |
| Total | 72 | 100.0% |

| | |
|-----------------|--|
| Buy | Total 12-month return expected to be > 15% |
| Speculative Buy | Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss |
| Hold | Total 12-month return is expected to be between 0% and 15% |
| Sell | Total 12-month return is expected to be negative |
| Under Review | Currently undergoing a change of analyst coverage |

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