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# **Canada's Airports in Context: *Drivers of Recent Growth & Prospects***

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**30 May 2019**

# GENERAL TRENDS IN CANADIAN AVIATION

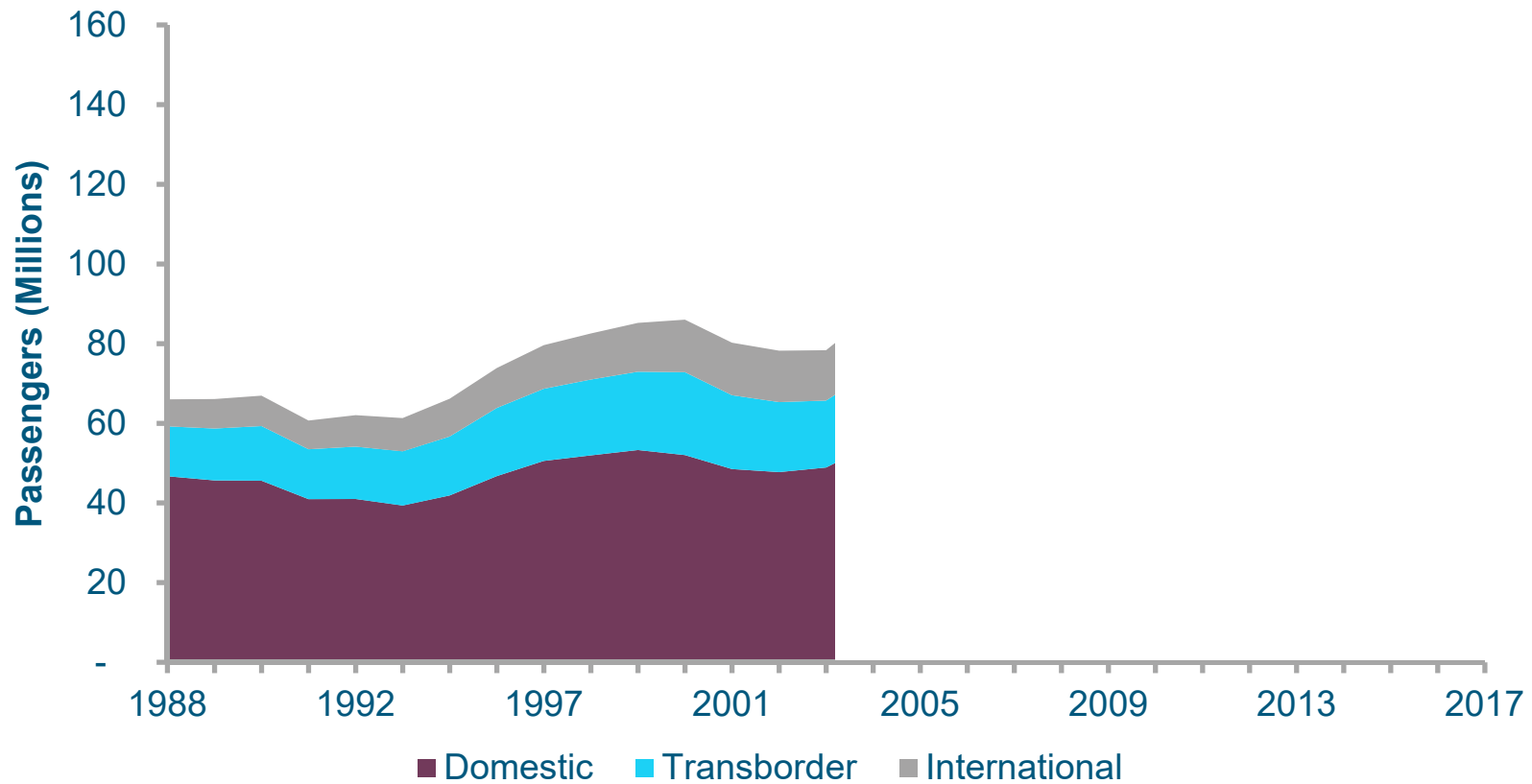


# Canada Air Passenger Traffic

## 1988 – 2017



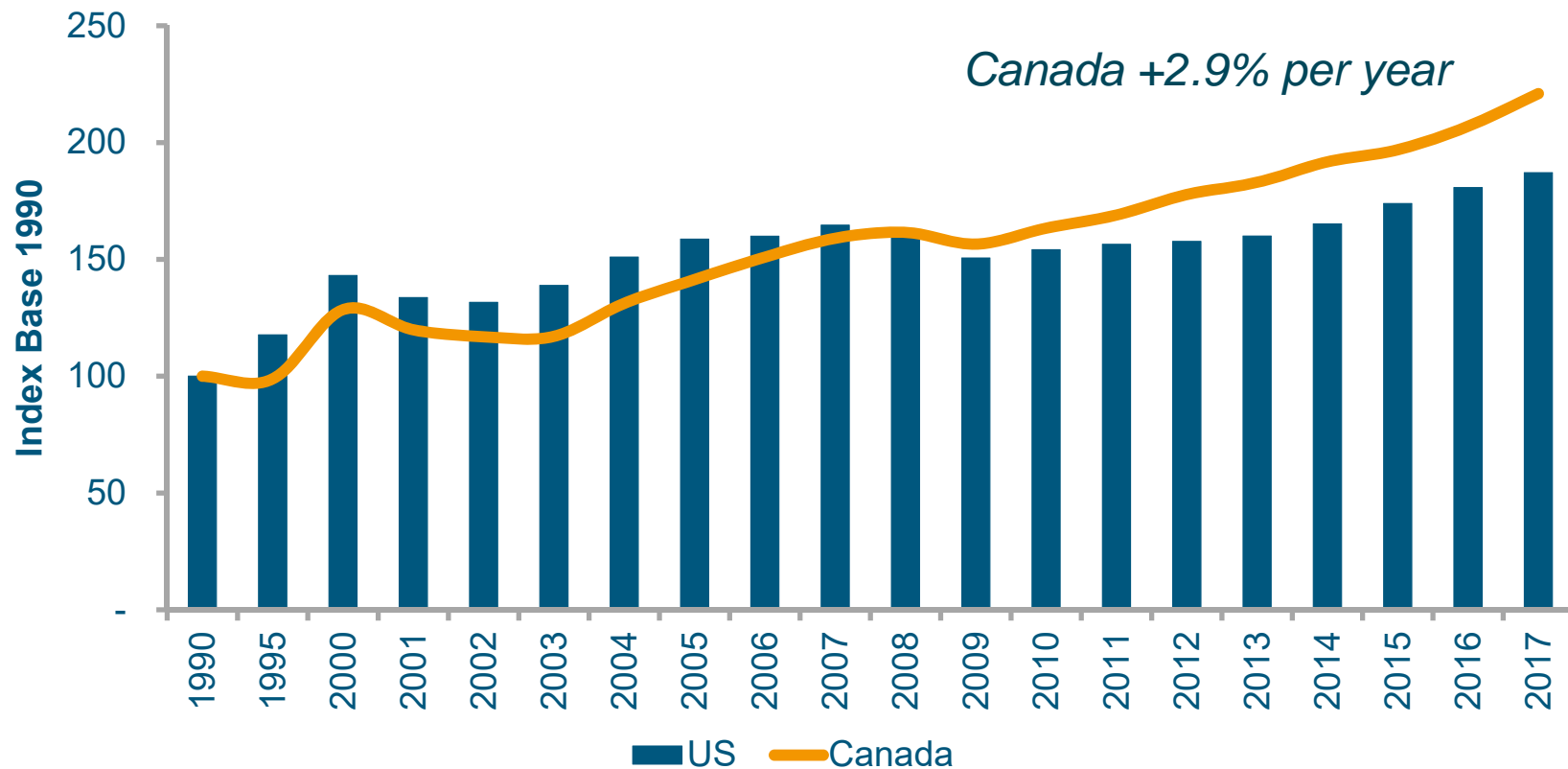
Canada Air Passenger Traffic  
Enplaned/Deplaned



# US vs. Canada Passenger Traffic

## 1990 – 2017

Passenger Growth in United States and Canada

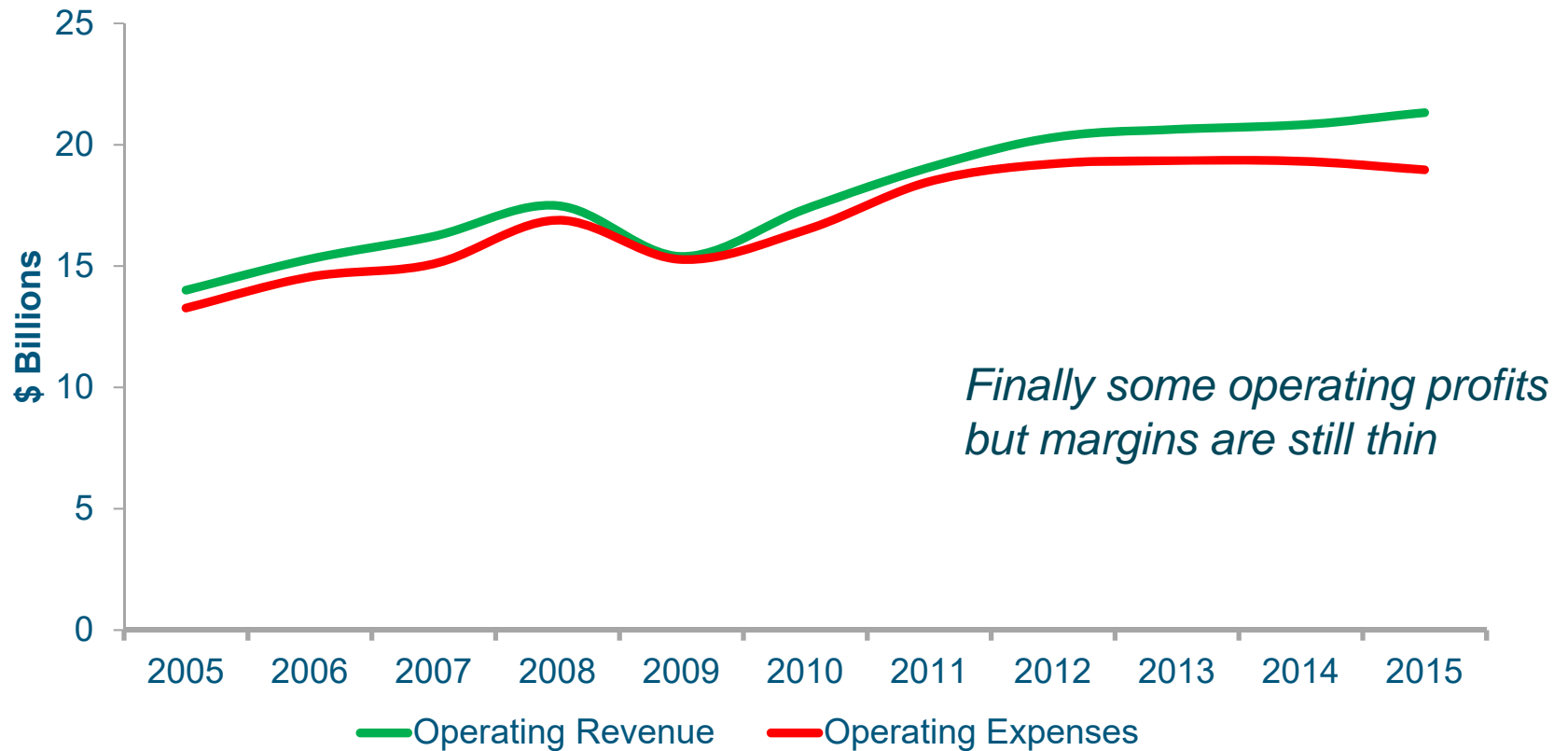


Source: InterVISTAS Calculations with data from:  
 Canada: Air Carrier Traffic at Canadian Airports, Statistics Canada.  
 US: T-100 Enplaned-Deplaned Air Passenger Statistics; 1960-2006 ATA, 2003-2016 BTS.  
 Note: Most recent data available is 2017.

# Canadian Air Carrier

## Revenue and Expenses: 2005 – 2015

Operating Revenues and Expenses



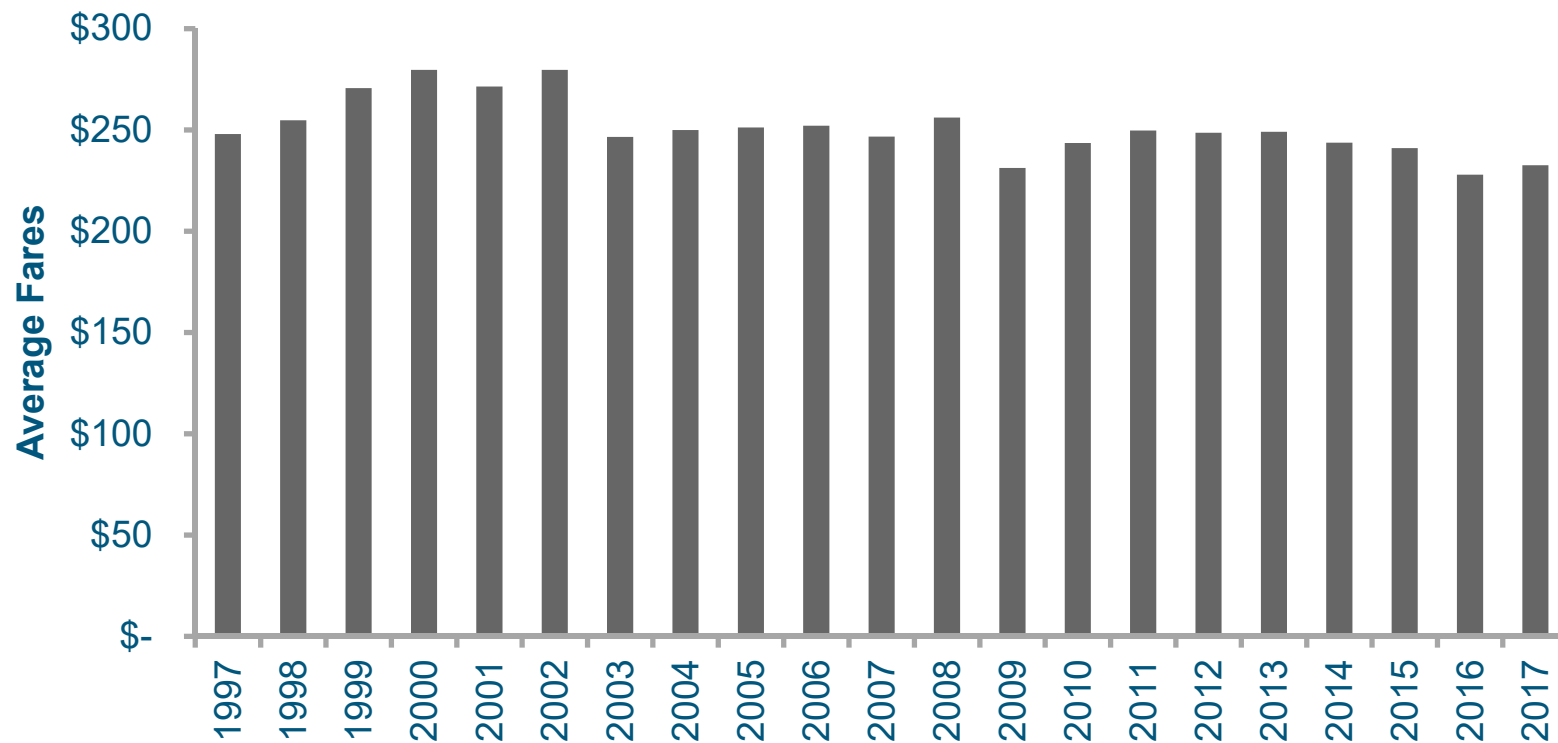
Source: Statistics Canada, 51-004-X  
 Note: Most recent data available is 2015.

# Nominal Average Fares

## Canada – Not Adjusted for Inflation



### Average Fare for Major Carriers



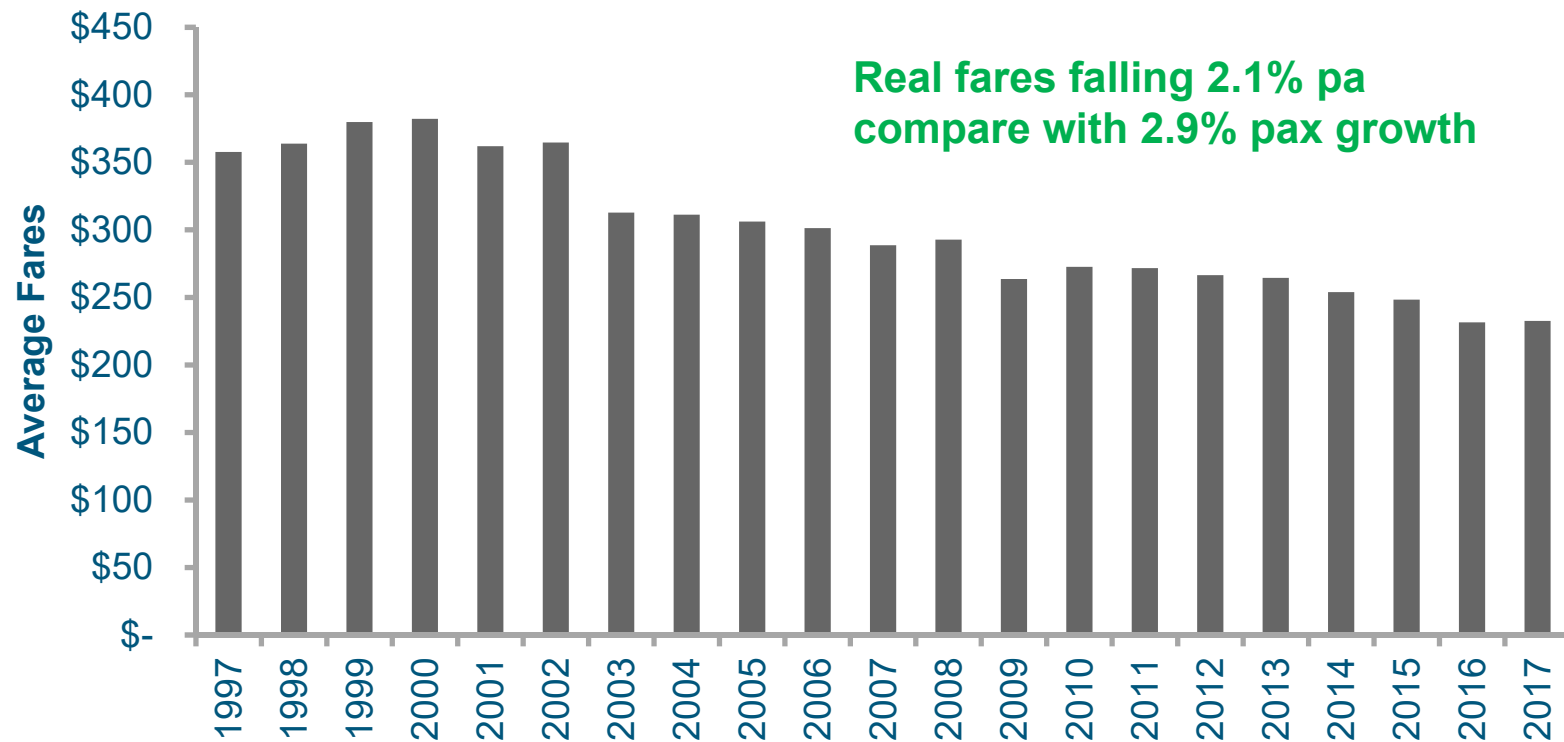
Source: Statistics Canada Average Fare data, Cat. 51 -004-X  
Major Air Carriers include Air Canada (Mainline, AC Jazz & regional partners, & AC Rouge beginning July 2013), WestJet, and Air Transat.  
Note: Most recent data available is 2017.

# Real Average Fares

## Canada – Indexed to 2017



### Average Fare for Major Carriers



Source: Statistics Canada Average Fare data, Cat. 51 -004-X  
Major Air Carriers include Air Canada (Mainline, AC Jazz & regional partners, & AC Rouge beginning July 2013), WestJet, and Air Transat.  
Note: Most recent data available is 2017.

# Caution on Measured Fare Decline

Pax respond to all-in fare, not airline base fare

All-in fare not declining as fast

- Especially important is increase in ancillary charges paid by pax
- These likely are growing at roughly 1% per year *suggesting a real fall in all-in fares also around 1% per year*
- Nevertheless, there is a continuing steady decline in all-in fare
- Taxes and airport charges also must be added to all-in fare

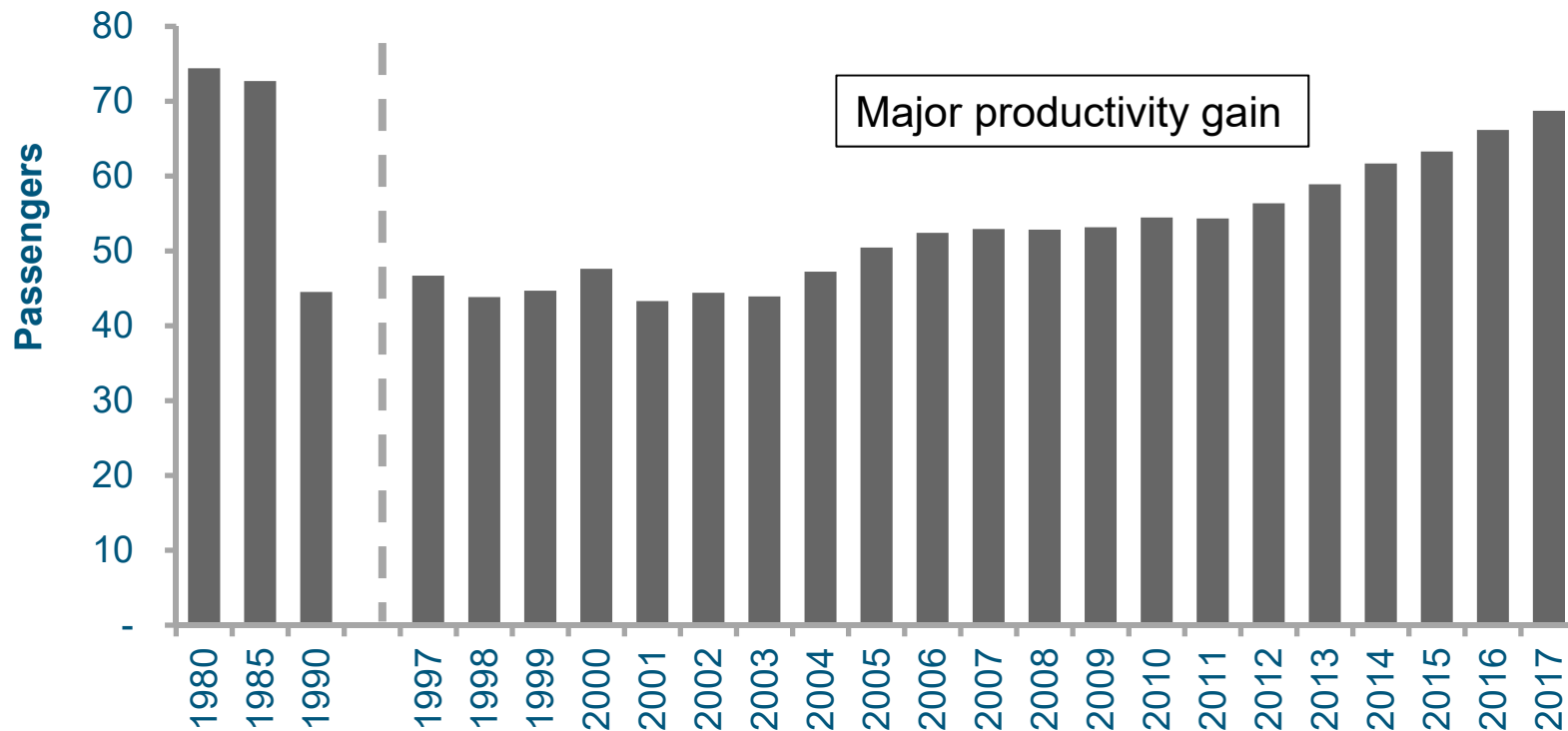


# Passengers per Aircraft

## Canada: 1980-2017



Average Passengers per Aircraft



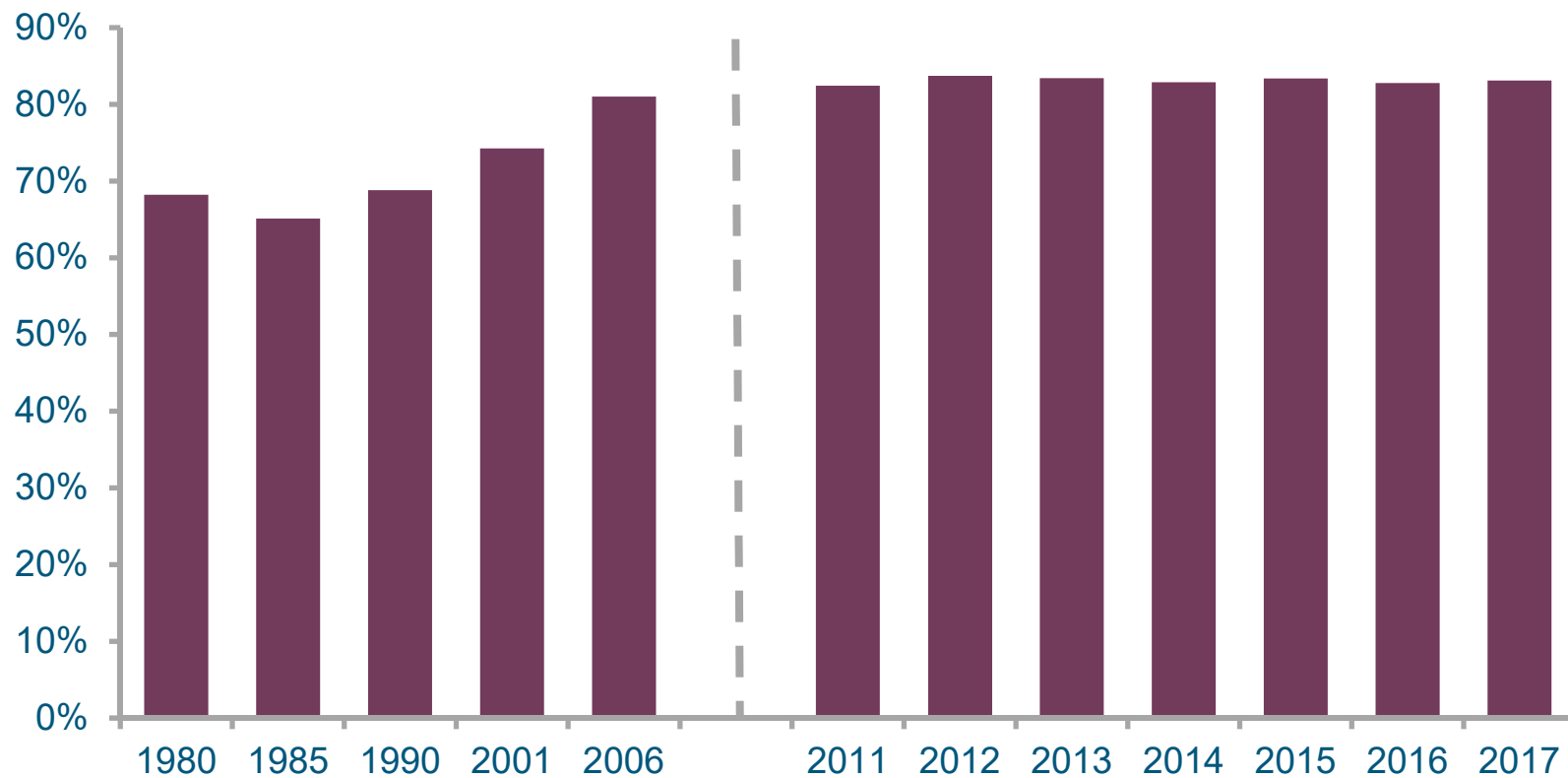
Source: InterVISTAS Calculations with data from: Aviation in Canada (1980-1990) and Table 401-0009, Statistics Canada and Air Carrier Traffic at Canadian Airports, Statistics Canada. Note: Most recent data available is 2017.

# Load Factors

## Canada: 1980 – 2017



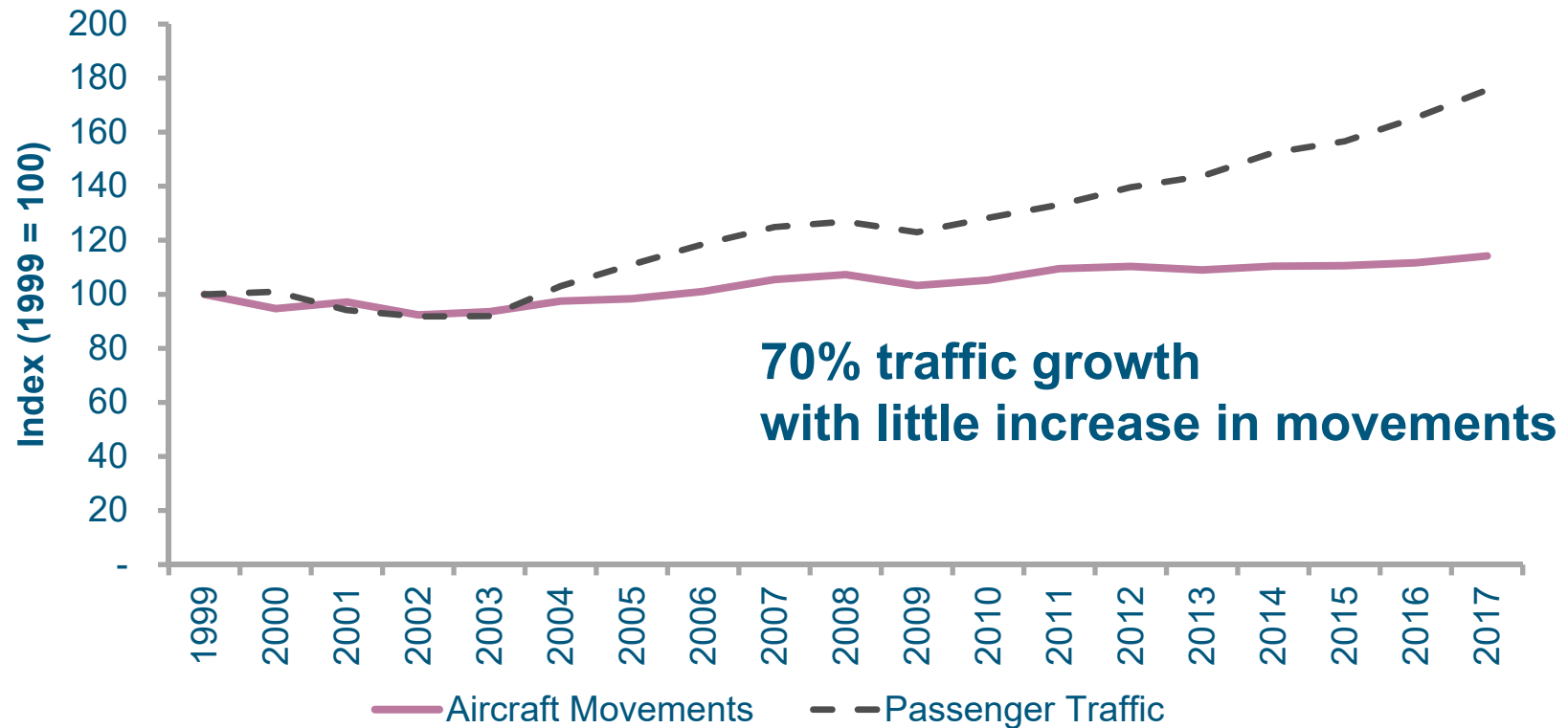
### Passenger Load Factor



# Pax vs. Aircraft Movements

Canada: 1999 – 2017

### Passenger Traffic vs. Aircraft Movements



Source: InterVISTAS Calculations with data from: Aviation in Canada (1980-1990) and Table 401-0009, Statistics Canada and Air Carrier Traffic at Canadian Airports, Statistics Canada. Note: Most recent data available is 2017.

# Key Drivers of Passenger Growth

- **Declining real fares**
- **Increased airline capacity**
  - First major capacity increases in almost all sizes/ranges
- **Supported by lower airline costs**
  - New aircraft with lower operating costs
  - Lower input costs – fuel and capital
  - Higher seating densities
  - Higher load factors
  - New business models: e.g. ULCC
  - Airport and community incentives

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# AIR CANADA & WESTJET

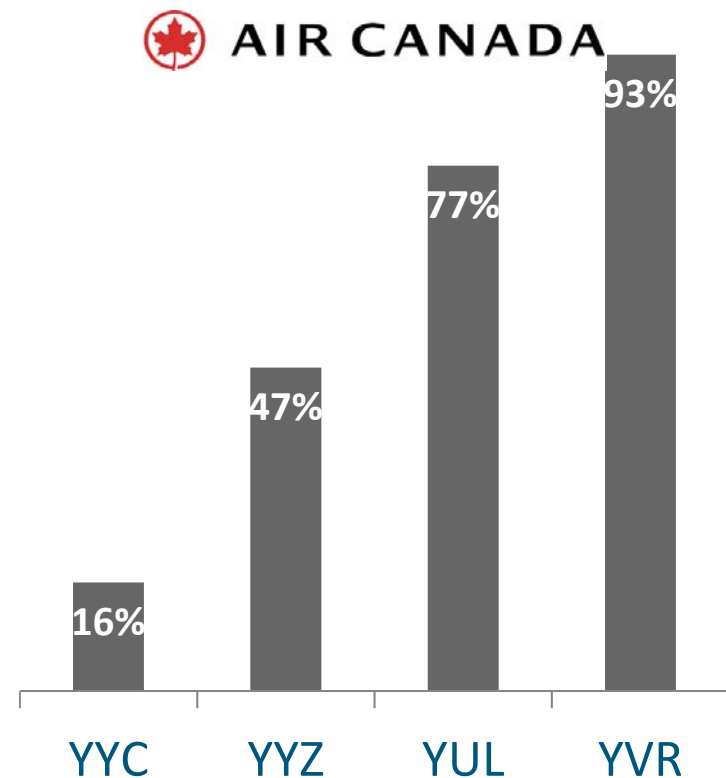


# Air Canada

## Main focus: Hub & Spoke Building

- Recent growth in international capacity driven by the 37 new 787 Dreamliners
- Growth concentrated at the three largest hubs
- Future growth expected to slow as widebody fleet growth slows

AC US/Int'l Seat Capacity at Hubs  
(Cumulative Growth 2014 – 2018)



# Air Canada Efficiencies

Growing 787 fleet combined with continued 767 transfers to rouge have enabled Air Canada to expand aggressively into multiple market segments on a cost competitive basis:

787

↑ efficiency + ↑ range

new long-haul markets viable (e.g. YYZ/YVR – DEL)

rouge

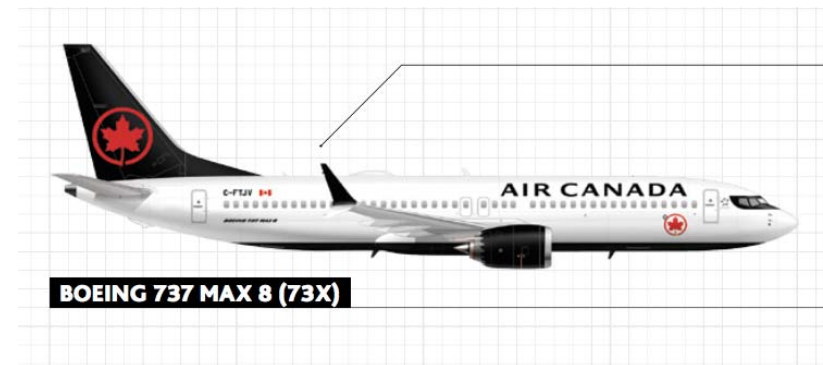
25% ↓ CASM than same aircraft in mainline

AC can deploy into lower yield leisure/VFR segments historically dominated by WS and charters

# Air Canada

## Narrow body

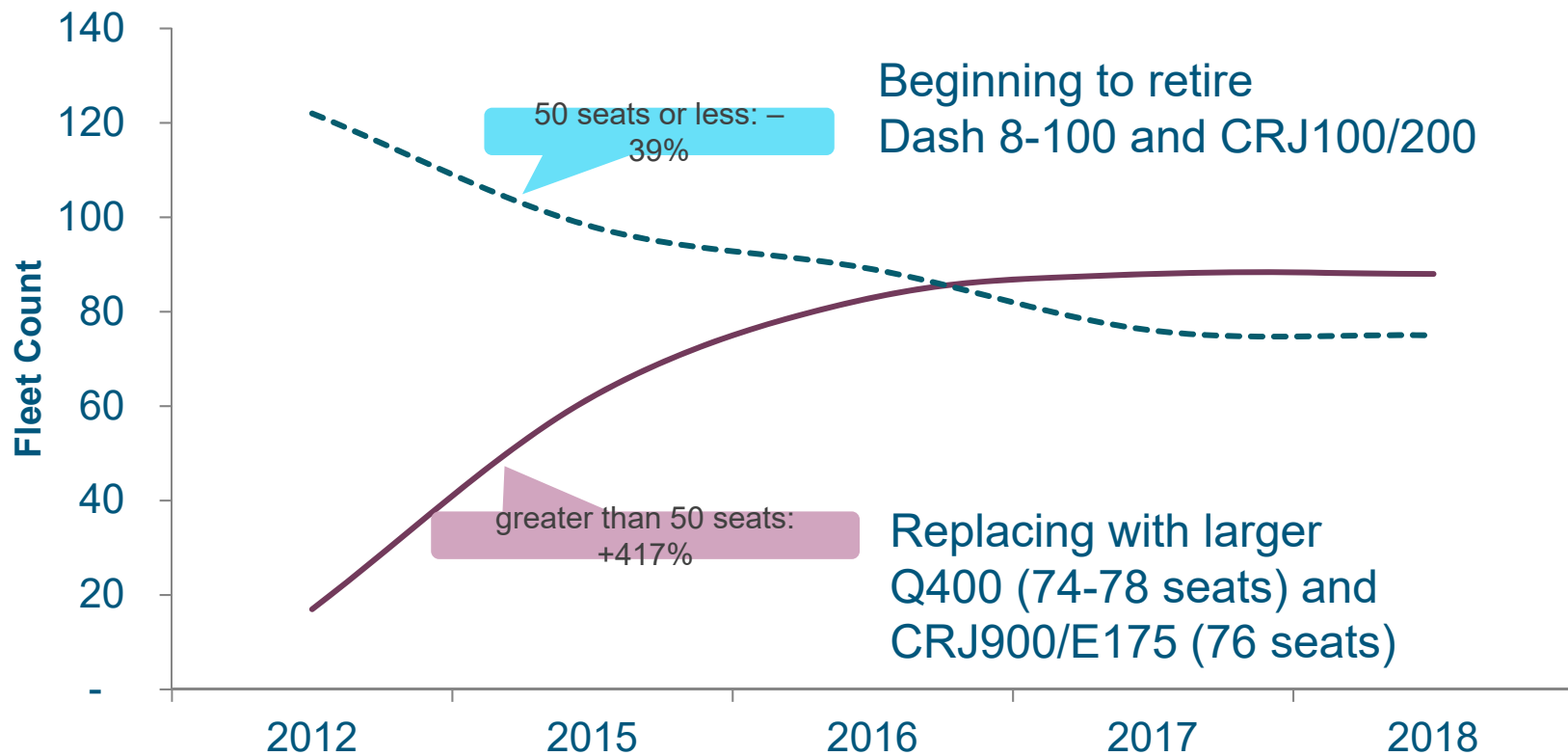
- Starting the phase in of 737 MAX 8 (and 9)
  - 61 on order with purchase options for an additional 48
  - 24 delivered as of May 2019
- Needed for
  - Replacement of aging A320s
  - Replacement of narrow body capacity that was diverted to feed new 787 routes
- 45 A220-300 on order
  - Planned entry into service: Dec 2019
  - Replace E190 & A319





# Air Canada Regional - shift to higher capacity aircraft

Air Canada Regional Fleet 2012-18



Note: Median fleet count taken for years where AC gave a range.  
Source: Air Canada investor Presentation .

# WestJet

## The long-term business model is evolving

- Increasingly Hub and Spoke
  - Encore – fleet of 47 Q400 aircraft
  - Link – fleet of Saab 340B aircraft operated by Pacific Coastal
  - Expanding internationally – 787 Dreamliners (ordered 10 + options for 10)
    - Taken delivery of first few and deployed on transatlantic
    - Joint venture with Delta (planned) and codeshare agreement with Air France

**WESTJET** 



# WestJet

## The long-term business model is evolving

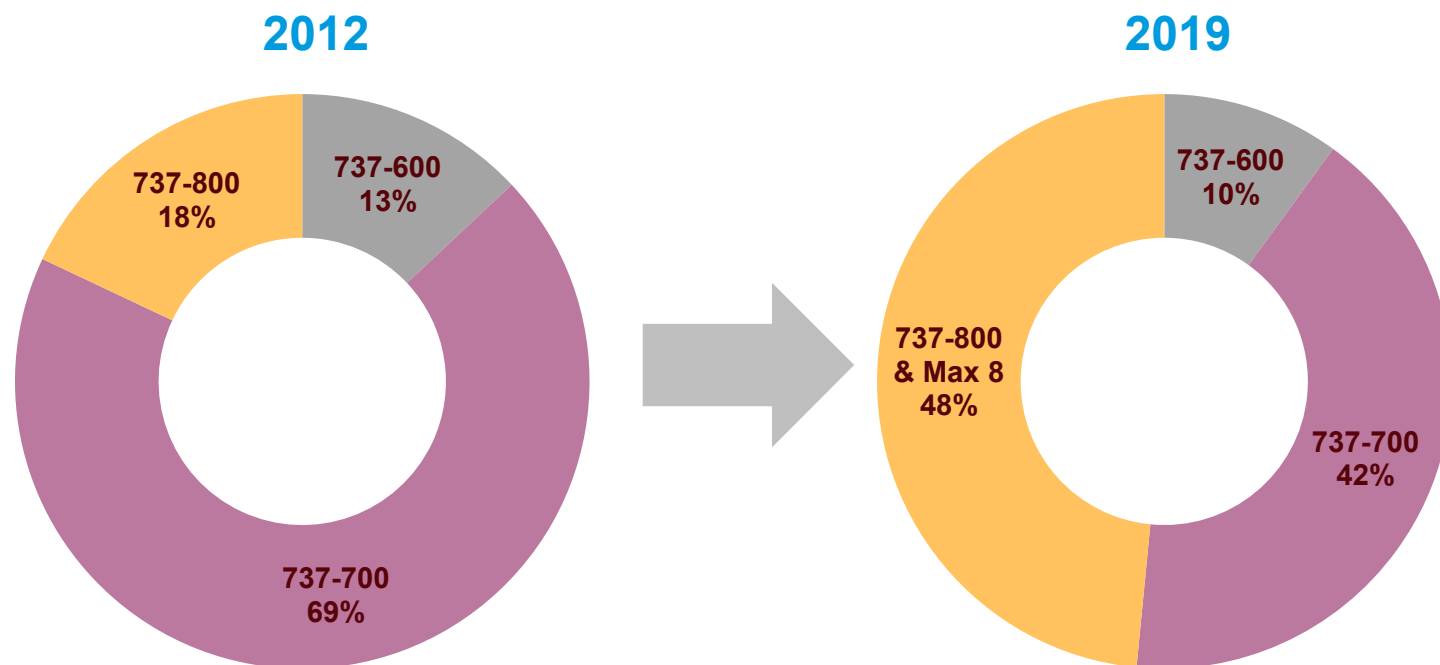
- Introducing full service product
  - New business class – offered on the 787 with lie-flat seating
  - Premium product for 737 (2x2 seating)
  - Rewards program – targeting high value customers and premium travelers
  - Lounge access at airports
  - Focus on corporate bookings



# WestJet

## Shifting towards larger 737 aircraft

- To reduce unit seat cost, the 737 fleet mix has shifted considerably over the past 6 years towards a greater share of the larger 737-800 and 737 MAX 8 (174 seats) at the expense of smaller 737-700s (134 seats).



# WestJet

## Short-term focus on managing growth

- “Prudent Growth” in 2019
  - The airline will take a prudent approach to capacity as it grows
  - 787s and Swoop providing most of capacity growth
    - Limited 737/Q400 growth in flying
  - Labour relations issues persist (threat of pilots striking, unionization of flight attendants)

***“We’ve grown too big, too fast”***

**— Ed Sims, CEO WestJet, 2018**



# WestJet & Onex

30.10 CAD -0.090 (0.30%) ↓

May 29, 4:00 p.m. EDT · Disclaimer

1 day

5 days

1 month

1 year

5 years

Max

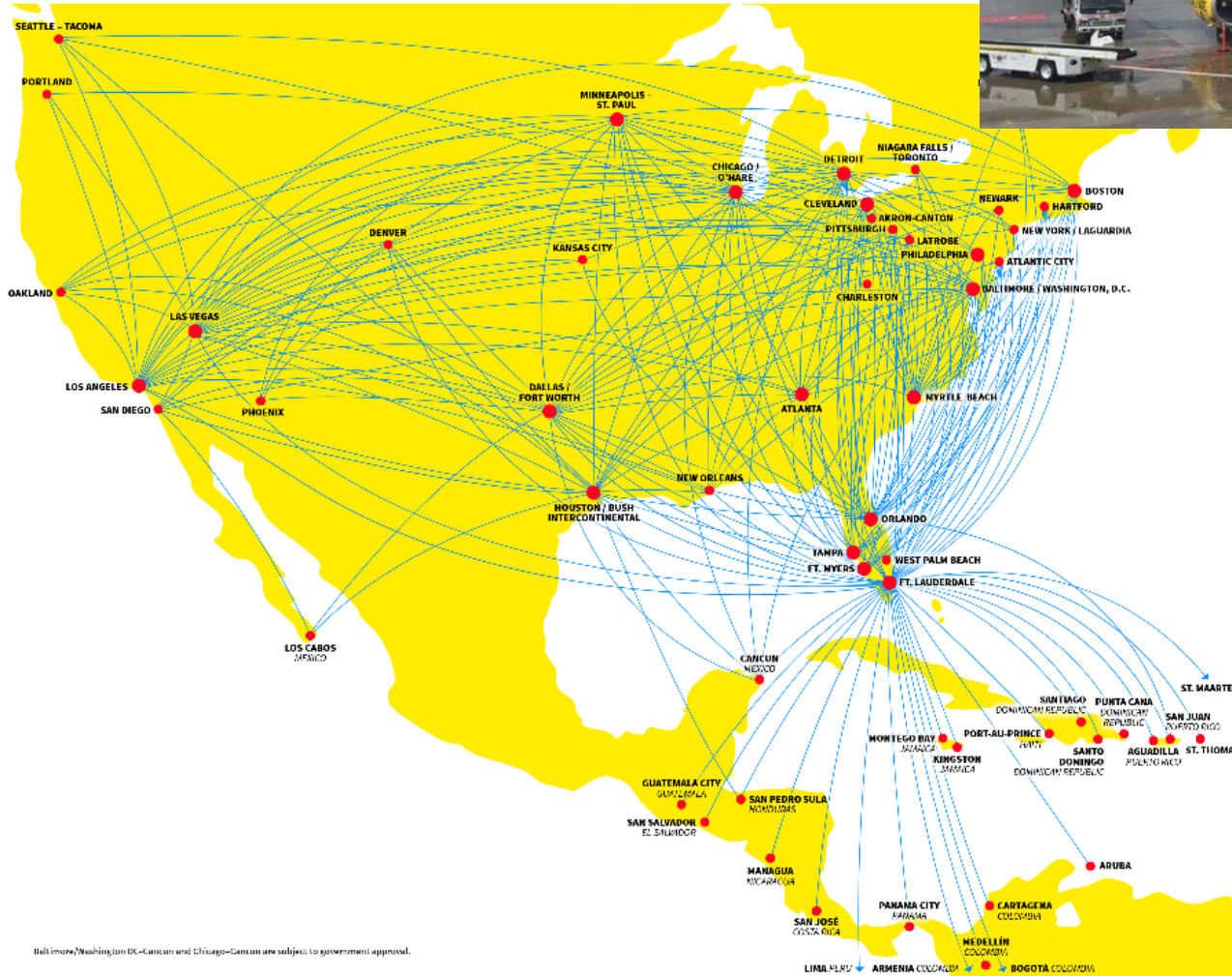


# ULTRA LOW COST CARRIERS (ULCC)



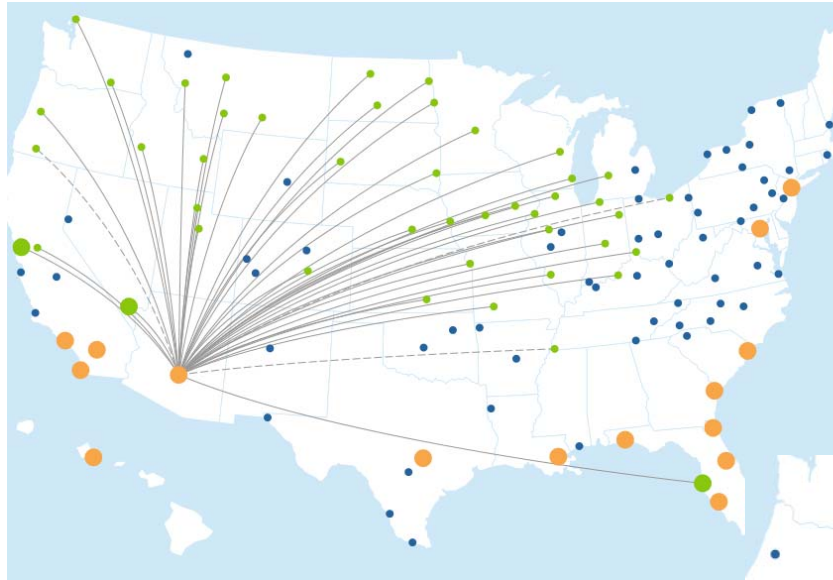
# Model: Point-to-Point

## WHERE WE FLY





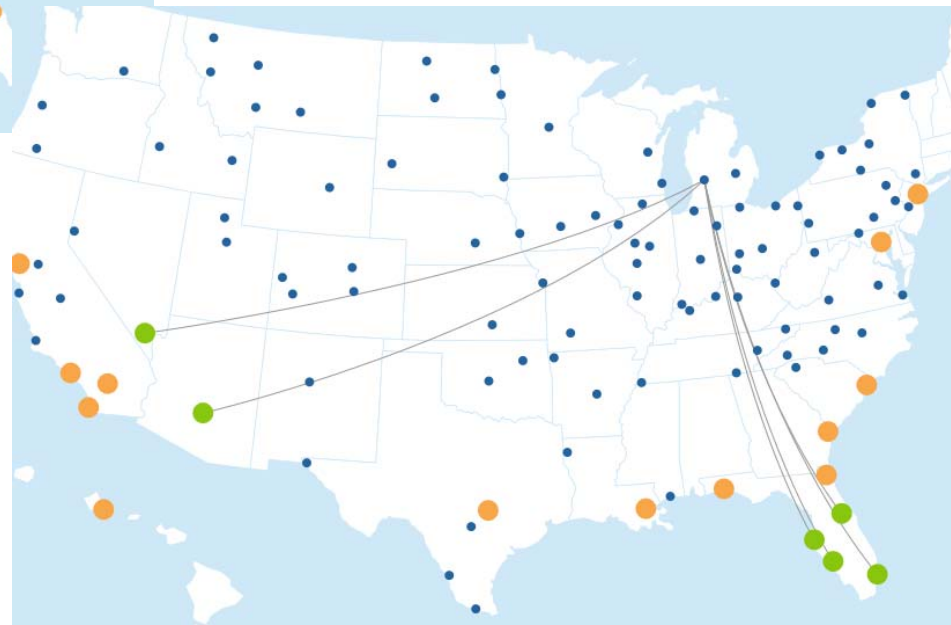
# Model: Leisure Focus



**PHX focus city**

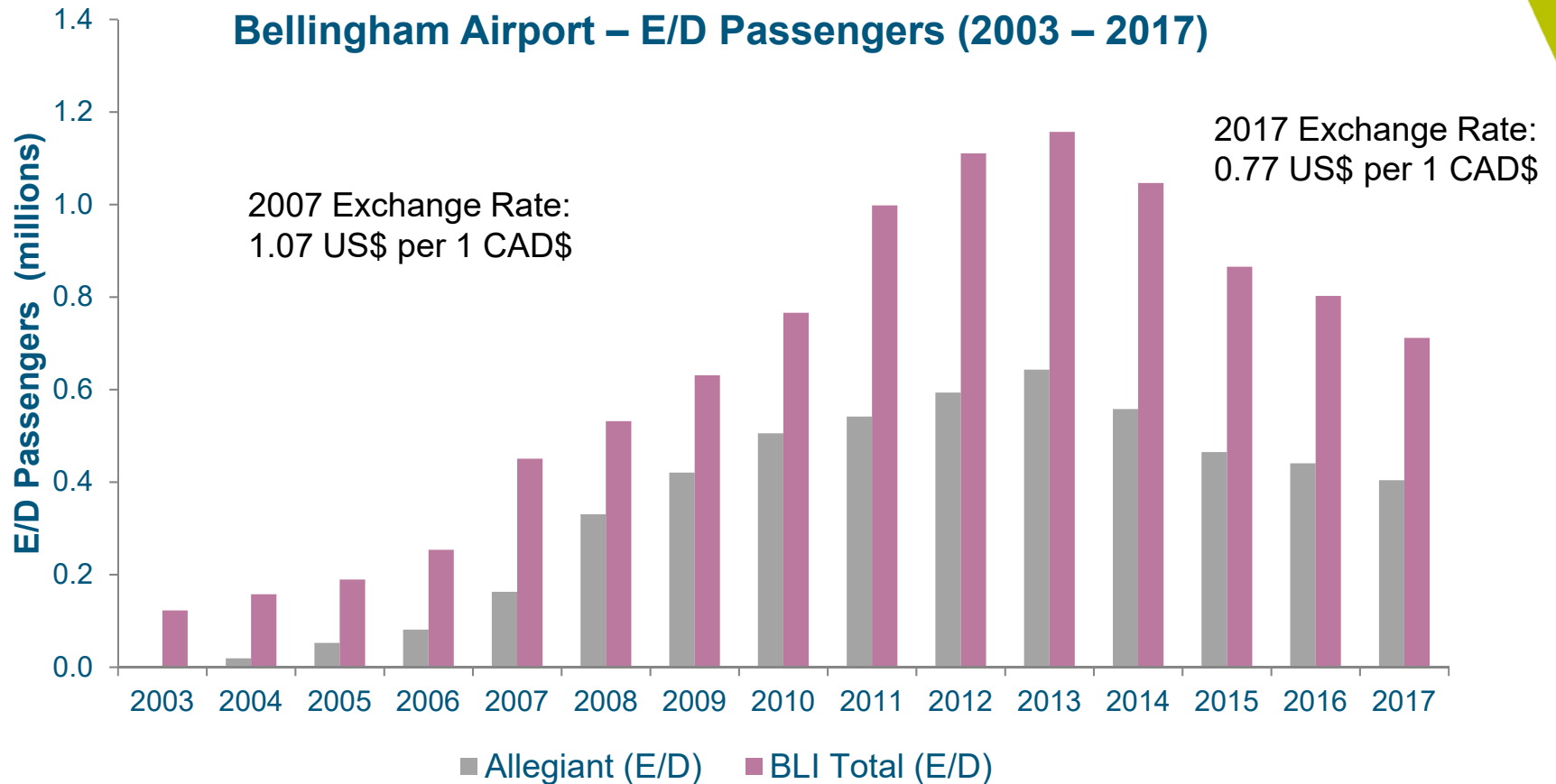


**GRR spoke**



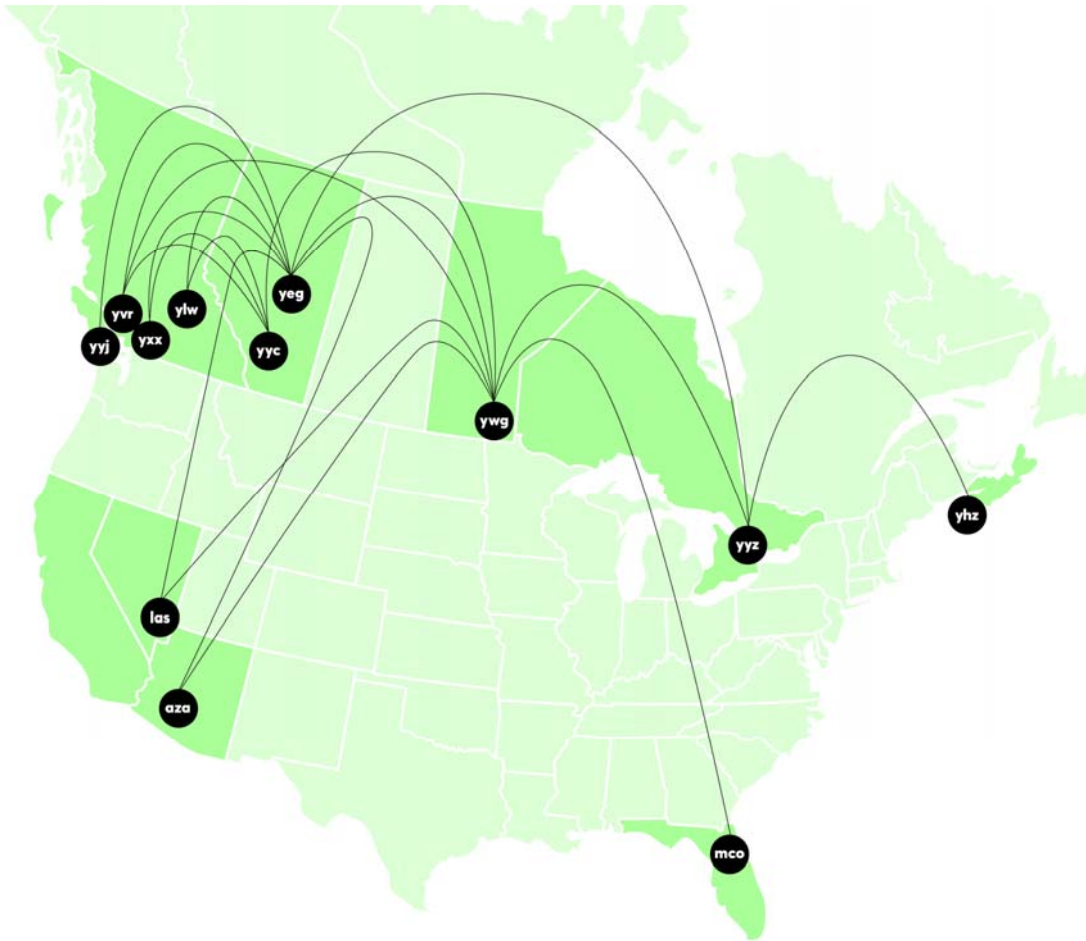
# Price Stimulation

LCCs can stimulate traffic levels via lower fares



# Flair

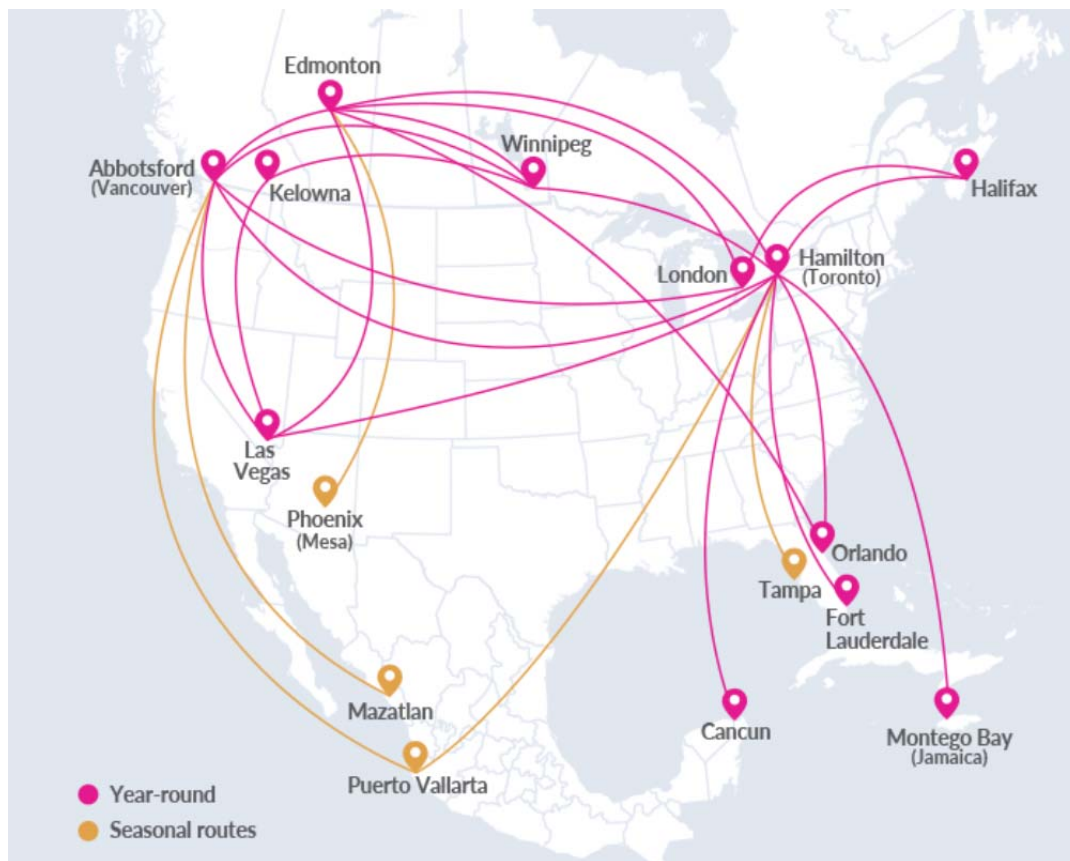
Focused on big stations - moved some operations from secondary stations to primary ones



- Still operating with 7 older 737-400s
  - Being replaced by 737-800s.
  - Except 11 aircraft by end of year

# Swoop

Launched by WestJet in June 2018:  
point-to-point + 40% cheaper fares



The Swoop logo, featuring the word 'Swoop' in a stylized, pink, cursive font with a small airplane icon at the end of the word.



- Operating with seven 737-800s that were transferred from WestJet
- 3 additional aircraft to be transferred by summer 2019

# Other ULCC update



- Recently announced that they plan to relaunch in 2019 as a ULCC
- Currently working with investor group, including Claridge Inc., Stephens Management Inc., and Indigo Partners
- Indigo Partners has extensive experience starting ULCCs (Spirit Airlines, Tiger Airways)



- Planned launch for December 2019
- Entered into agreement with SmartLynx Airlines SIA to lease (2) A320 for delivery in fall 2019
- Appointed new CEO, Javier Suarez (VivaAerobus)

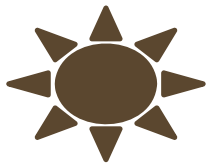
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# SUN CARRIERS



# Sun Carriers – adapting to increased competition



Continues to focus almost exclusively on vacation sun markets (e.g. Caribbean and Mexico)



Serves a number of small Canadian communities, but mostly in eastern Canada



Route decisions based more on needs of broader travel group rather than on pure market demand



# Air Transat – AC Acquisition (Merger?)

- Announced May 16, 2019
- 30 day exclusive negotiation period
- Merger / acquisition review (complicated)
  - Competition Bureau review on competition impacts
  - Potential Minister of Transport review on national interest
  - Prescribed timelines go beyond election
    - There is some scope for shorter review





# Concluding Thoughts

- **Aircraft Transition**
  - CRJ 50 seat, Dash 8-100/300 not in production
  - Future is for regional operations with 70+ seats
  - Narrow-bodies will be mainly larger variants
  - Wide-bodies will be higher density
- **Result -> Lower unit cost (lower fares) -> Growth**

# Concluding Thoughts

- **Is Growth Sustainable?**
  - Yes, and aircraft are being built to materialize this growth
  - But there are business risks
    - Economic cycle is 3<sup>rd</sup> longest in history
    - Individual carriers may not survive
  - Long-term trends support growth
    - Lower fares will stimulate demand
    - Millennials have air travel as a key element of lifestyle



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**THANK YOU!**

