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Sky's the limit for ultra low cost Canada airline

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Canada Jetlines prepares for takeoff

To Jim Scott, it just seemed plain wrong that millions of Canadians were grounded because of high airfares. So the seasoned airline pilot and businessman started crunching numbers to find out why.

The figures he found were astounding. Take the estimated 10 million passenger trips per year not being flown in Canada because airfares are too high — enough to keep 60 jet aircraft operating fulltime. Throw in the number of Canadians heading south for cheap flights in the U.S. and a few other factors and the answer to the problem was crystal clear. Canada needed an Ultra Low Cost Carrier (ULCC) to get Canadians flying again.

So as he's done throughout his professional and personal, life, Scott set out to fill the gap.

"Canada's the only G-7 country without an ultra-low-cost carrier," says Scott. "The model's been proven around the world — it's just a matter of mechanically setting up the operation here in Canada."

To get the ULCC model off the ground, Scott put together **Canada Jetlines Ltd.**(TSX.V: JET). Based in Vancouver and Southern Ontario, the airline will offer flights throughout Canada, the United States, Mexico and the Caribbean, starting with six Boeing 737 aircraft in the first year of operation, and expand to 40 aircraft over the first eight years of operations.

Scott says the proven and profitable ULCC model has been successful around the globe, with carriers like Ryan Air and EasyJet not only offering consumers low airfares, but also giving their investors significant returns.

"All over the world, ultra-low-cost carriers are doing very, very well in the market place. In Asia, they've gone from a very low percentage to nearly half the seats in a really short period of time. So there is a desire for consumers to have a choice of discounted airfares and we intend to fill that market," Scott said.

So what makes a ULCC so cost-effective? In a nutshell, one type of plane, one class of seat and one straight line to your destination from secondary airports.

Canada Jetlines will use only Boeing 737s, which reduces maintenance and pilot training costs. One seat class means being able put more passengers aboard by eliminating the roomy business or executive class section. And by going "point-to-point" with direct flights instead of the major airline's hub-and-spoke system with connecting flights and multiple stops, the airline saves on fuel costs.

"Point to point is more efficient," says Scott. "It uses less miles to travel, so we can lower the cost to the consumer by going one point to another. It's better on the environment and it also saves time and losing your bag too because there's no connection point."

By using secondary airports in cities like Abbotsford, Hamilton and Kitchener-Waterloo, Canada Jetlines will save on airport fees and realize other cost reductions, which will be passed on to consumers with lower fares.

“We can get in and out of the airport much quicker, which is important for efficiency, and the air traffic control delays going into these airports are very small compared to bigger airports, so we end up not having delays, quicker turnarounds and lower fees,” says Scott.

“For the consumer, they’re usually airports that are easier to get to, the parking fees are lower and there’s greater ease of boarding because they’re smaller airports. So everybody wins.”

And just because it’s low-cost doesn’t mean it’s low service. Scott says passengers will be seeing their flight attendants more often on Canada Jetlines flights than on other airlines.

“Our motto is affordable air fare for all Canadians with a passion for service. Where you really have to kick it up is in service. For us, because we charge for items, we continuously serve passengers throughout the flight,” he says.

All this is designed to what Scott calls the “cost-conscious flier,” who could be a small business person needing to take that extra flight to seal a deal, students flying back and forth from university, parents off to see their kids and especially families.

“Any differential, say $80 or $100 when you multiply it by five people in the travelling group makes a significant difference,” says Scott.

“So it’s about stimulating people to say, ‘Wow, it’s so inexpensive to go see my grandmother or I can do another business trip or I can take another trip to a sun destination because I’m saving as much money as I would be spending on the hotel rooms.’ That creates the decision to buy.”

Those cost-conscious fliers won’t be booking their seats via a travel agent. The ULCC model relies on virtually all purchases being made online. And advances in technology where passengers can have their boarding pass on their phones and need minimal front counter assistance have created another way of cutting down costs to lower airfares.

Chris Murray, a research analyst who specializes in the airline industry for AltaCorp Capital Inc. says there’s space for an ULCC in the Canadian market.

“It’s easier said than done, but having said that, it’s our expectation that someone is going to make this model work,” said Murray. “I think there are a lot of folks that are hoping that it comes to pass — certainly I think the regulators are conscious of it. And government would like to see a third or fourth major carrier in Canada for competition reasons.”

The Canadian government is so eager for more competition in the airline industry that it recently granted Canada Jetlines an exemption to the current airline foreign ownership restrictions to give the company access to the capital markets.

“We understand that the business doesn’t just need the initial financing; it needs on-going financing,” says Scott.

“This is our intent, to get into the market and increase the share value so that we can bring in the foreign capital without diluting the amount of Canadian shareholders, which is required to be 51 per cent.”

The overall investment climate for the airline industry has been positive for a number of years. Returns on investments have been strong, with airline stocks outperforming the various indexes. For instance, Air Canada stock went from just $0.82 a share in 2012 to $13.50 as of January this year.

Returns like that have prompted U.S. investment guru and financial magnate Warren Buffett to reverse his negative opinion of airline stocks and in 2016 invest in United Continental, American Airlines Delta Airlines, and now in 2017 to invest into discount carrier Southwest Airlines.

Canadian carrier WestJet is another success story. The carrier, which used to fill the low cost fare space, saw an increase over the same period from $14.08 to $23.01 a share.

It’s partly WestJet’s withdrawal from the bargain airfare market that has opened the door to a ULCC setting up shop in Canada, Murray says. That coupled with the success of the model elsewhere are positive signs for Canada Jetlines to point to.

“They (Canada Jetlines) have got a handle on it,” says Murray. “They’ve been working on this plan for some time. It will be interesting to see how it evolves.”

But for Scott, past performance is one thing. Picking the “rising star” of the airline industry is quite another. And he has a pretty good idea where he’s put his money as an investor.

“Basically, it was a need to fill a gap in the market space that I saw, and all my personal life, I’ve done that — fill in the gaps,” says Scott.

“For me, this is really important to bring affordable airfares to Canadians and also that we get a great rate of return for the shareholders so that it stays in business for many, many years to come.”