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Canada Jetlines Stock Could Take Off Once Service Begins

Canada Jetlines Ltd. (TSXV:JET) expects to receive its license for operations in Canada soon and subsequently plans to expand across North America

SmallCapPower | February 7, 2018: Canada Jetlines Ltd. (TSXV:JET), headquartered in Vancouver, British Columbia, is an airline company operating in the ultra-low-cost carrier (ULCC) segment in Canada. The Company plans to start its operations beginning mid-2018 once it receives Canadian government approval.

With a distinctive offering of lower fares and costs, coupled with favourable demographics, Canada Jetlines is well positioned to penetrate the ULCC market in Canada. The Company currently trades at a market cap of $42 million, as Canada Jetlines is still in its pre-operating phase, compared to the major Canadian airline companies such as WestJet and Air Canada, which trade at market caps of $2.8 billion and $6.5 billion, respectively. Canada Jetlines expects to receive its license for operations in Canada soon (1H/2018) and subsequently plans to expand across North America, provided permits and exemptions are granted. Post-commencing operations mid-2018, subsequently reporting cash flow, the share price of Canada Jetlines should improve significantly.

Investment Thesis

- Distinctive offering of low fares and costs
- Canadian operating permit expected soon
- Large market opportunity

Distinctive offering of low fares and costs

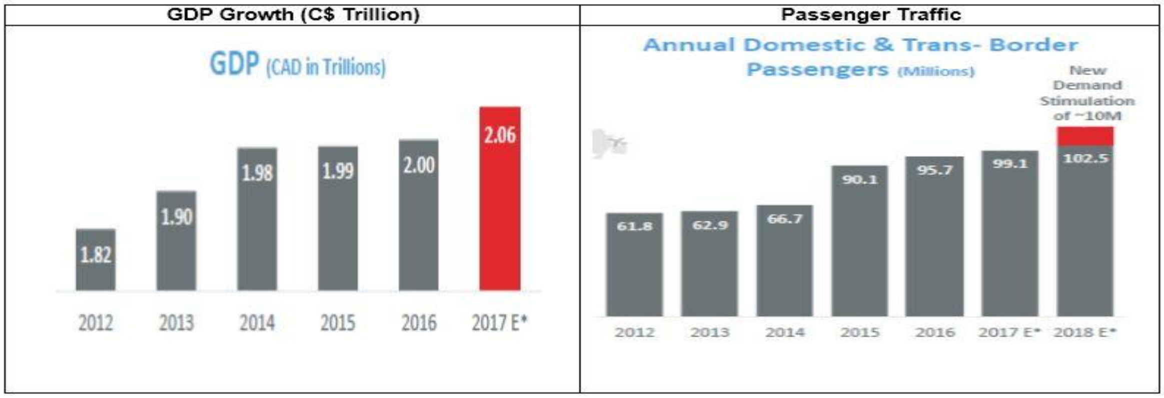
Canada Jetlines' salient aspect is its unbundling approach to air fares. The Company offers base fares that are ~50% below its current competitors. Canada Jetlines follows ULCC business policies, which makes it unique among other Canadian airline companies. Canada Jetlines offers ancillary services for an additional fee, which includes single all-economy class configuration. In addition, the airline offers the option to advance check-in at the time of ticket purchasing.

Canada Jetlines' operations are focused on the usage of secondary airports, which charge less as compared to main airports. The Company's workforce is highly productive with high daily aircraft utilization. Canada Jetlines anticipates a cost base at least 40% lower than the existing airlines in the Canadian market, and comparable to other ULCCs in the United States.

Favourable demographics to drive ULCC segment

Canada's airline sector differs from those in the U.S., Europe or Asia, as Canada lacks domestic competition. The market is duopolistic, dominated by WestJet Airlines and Air Canada, with a combined market share of more than 80%. Both players have taken advantage of this situation by keeping air fares relatively inflated.

In Canada, the ULCC market is still in its infancy stages, presenting a lucrative opportunity for low-cost carriers such as Canada Jetlines. According to estimates, 86% of the total 95.7 million domestic as well as trans-border passengers flew in and out of Canada through WestJet and Air Canada. The Canadian airline market is projected to be underserved by about 10 million passengers.



Canada's GDP grew at an estimated 3% for 2017, one of the highest among G7 nations. Canada Jetlines has strategically positioned itself in a niche Canadian ULCC market and could capture a significant amount of market share going forward.

Appropriate timing: Now seems a suitable time to penetrate the underserved ULCC market. Lack of competition provides impetus for companies such as Canada Jetlines, which can play in the low-cost sector as there is not enough incentive for Canada's major airlines to enter this lower-margin segment. The Canadian government supports greater competition in the airline market and has already granted exemption for 49% foreign ownership. The domestic and trans-border passengers are estimated to grow at 3.5% CAGR between FY 2018 – FY 2023.

Aggressive expansion plans

Once Canada Jetlines receives its license to operate in Canada (H1/2018), the Company plans to apply for a foreign air permit, or an exemption from the U.S. Department of Transportation, to fly directly from Canada. At the same time, Canada Jetlines will seek approvals from Mexico and other Caribbean regulatory authorities for air travel in those respective countries. Canada Jetlines aims to increase its business by expanding its air network throughout Canada and to select locations in the U.S., Mexico and the Caribbean nations, on the condition that permits/exemptions are granted.

The initial fleet of Canada Jetlines will be the Boeing 737-800 family. The Company plans to lease and/or purchase further aircrafts at an average incremental rate of about four per year. On that end, Canada Jetlines entered into a purchase agreement with The Boeing Company. As per the agreement, Canada Jetlines has agreed to buy five Boeing 737-7MAX aircraft for delivery in 2023. Furthermore, there is an option to purchase up to an additional 16 Boeing 737MAX aircraft.

Experienced Management Team

Canada Jetlines has an experienced management team and Board of Directors with significant experience in ULCCs and capital markets. At the helm is Mark Morabito (Executive Chairman), who has 20 years of experience in capital raising and corporate development. He founded several successful companies and raised over $700 million for their development, achieving two NYSE listings. In addition to this, Canada Jetlines' CEO and Director Stan Gadek has strong know-how of the airline market, having served as President, CEO and CFO of Sun Country Airlines and CFO of AirTran in the past.

Outlook and Valuation

With a distinctive mix of lower fares and costs coupled with favourable demographics, Canada Jetlines is well positioned to penetrate the ULCC market in Canada. Although the Company is in its pre-operating phase currently, it expects to receive its license for operations in Canada soon (1H/2018) and subsequently plans to expand across North America, provided permits and exemptions are granted. In terms of valuation, Canada Jetlines trades at a market cap of $42 million, compared to the major Canadian airline companies such as WestJet and Air Canada, which trade at market caps of $2.8 billion and $6.5 billion, respectively. If Canada Jetlines receives permits and commences operations in mid-2018, the valuation could improve significantly.