Warren Buffett Is Bullish on Airline Stocks: Should You Be?

Description

Warren Buffett has been making bold bets on the airlines lately. He distributed his bets across all four major American airline companies: **American Airlines**, **Delta Air Lines Group Inc.**, **United Continental Holdings Inc.**, and **Southwest Airlines Co.**

There's no question that Warren Buffett sees something in the airlines, because he's made it known that he's never been a fan of the airline industry. The only reason why he'd go against his belief is if there's huge value to be had.

The airlines have been underperforming for the past few years and have gone out of favour with most investors. While other investors are running scared, Foolish investors should be buying.

This move on the airlines is a typical contrarian play which Buffett is famous for, and while it seems like he's going all-in with his bet on the airlines, his investments only accounted for less than 1% of his total holdings. A lot of the airline stocks are dirt cheap right now with price-to-earnings in the single digits, but Buffett's bet on the airlines may not be without risk.

Should you be buying Canadian airline stocks such as **WestJet Airlines Ltd.** (TSX:WJA) and **Air Canada** (TSX:AC)(TSX:AC.B) before they take off?

WestJet Airlines is a lower-cost airline than Air Canada and manages to spend 25% less per mile flown than Air Canada. WestJet is able to do this by keeping its plane fleet of the same brand of aircraft. Doing this keeps repair costs down and allows the company to focus on delivering a terrific customer experience.

Being a lower-cost operator allows the company to reduce the cyclical downside of an economic downturn, which is a very large problem for the airline industry. The company is by no means resistant to the cyclical downfall, but it faces less downside than its peer, Air Canada, which has still not rebounded from its pre-financial crisis high, while WestJet has.

To say WestJet is cheap right now would be a huge understatement. The stock trades at a minuscule 8.3 price-to-earnings multiple with a 1.2 price-to-book multiple–both of which are lower than its fiveyear historical average values of 12.1 and 1.8, respectively. The price-to-sales and price-to-cash flow are also considerably lower than the historical average.

The dividend is also a full percentage point higher than its historical average at 2.7%, so contrarian investors can enjoy a very bountiful dividend while waiting for the stock to rebound next year.

Air Canada took a gigantic beating in 2008; the stock plummeted 95% and has yet to recover almost nine years later. There's no question that you could lose your shirt if you buy this stock at the wrong time of the cyclical cycle. The upside could also be very large if you bought the stock at the right time of the cycle, and it looks like Warren Buffett believes this time could be very soon.

Air Canada reported a fantastic Q3 2016 earnings report. The company saw its profit jump by over 75%. The stock responded by rallying higher, and I think there's still more upside based on how incredible that quarter was.

Air Canada is also absurdly cheap with a 4.19 price-to-earnings multiple. Unlike WestJet, Air Canada doesn't pay a dividend, so patient investors will not be rewarded until the stock price starts taking off.

These two Canadian airlines are cheap, and if Warren Buffett was Canadian, he'd probably buy these two stocks right now. If you're a contrarian investor, then it's probably a good strategy to buy these dirt-cheap stocks, as they could potentially double next year.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

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