



Why Warren Buffett Would Love to Own Shares of Air Canada

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) is starting to find some upward momentum, and the stock was recently included as a part of **Royal Bank of Canada's** top 30 global picks for 2017. Warren Buffett loaded up on several American airlines this year. Is it time for you to follow in his footsteps by buying shares of Air Canada?

First off, companies that are as cyclical as airlines are never great long-term investments. As we've seen during the great recession, airline stocks got beaten up badly, and Air Canada has still yet to recover from its crash. Another recession is inevitable. It's just a fact that investors have to live with, but when a recession does happen, airlines will get hit hard with a magnitude much greater than stocks in other industries.

Air Canada is a great pick for the short and medium term, meaning it will be a great pick for the next year or two as the economy strengthens. Air Canada, as well as any other airline, will never be a forever stock that you can hang on to for decades, so be cautious once you own it, because the tides could turn a year or two down the road.

Deep value to be had in Air Canada?

The airlines have been beaten up, and there exists a considerable margin of safety at current levels. The airlines might be getting ready to take off as a part of a cyclical upswing, and it's a great move to buy the stock low and sell it when it's high. Make sure you sell the stock when it flies higher, because the stock will come down once the economy slows down.

Air Canada just came off an incredible Q3 2016 earnings report. Profit jumped by a whopping 75%. Net income and revenues also rose above analyst expectations, and I believe this could be the start of a sustained rally in 2017.

There's no question that the stock is cheap after taking a huge beating over the last few years. The price-to-earnings ratio is at a ridiculously cheap 4.26 and the price-to-sales multiple is at 0.2. The stock is trading at a huge discount to its intrinsic value, and if you're a buyer at these levels, you'll enjoy a nice margin of safety because there really isn't much downside from here.

Sure, the stock might not be a business that you can keep forever, but it's sure cheap right now, and the entire sector has huge tailwinds to ride in 2017.

Warren Buffett sees deep value in the airlines, and he will probably liquidate his entire stake in airlines in the latter part of next year or the beginning of 2018 once the cyclical upwards movement slows down for the airlines. Although he's known as a long-term investor, this is not one of his long-term moves. It's a smart medium-term trade that will pay off in a year or two.

If you buy Air Canada or any other airline stock right now, then make sure you take your profits off the table or you could lose all of your gains as well as a part of your initial investment. Airlines are not long-term investments; they're medium-term trades. I believe Air Canada is a trade that will do very well in the new year.

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