



## Air Canada: Should You Fly the Airlines With Warren Buffett?

### Description

The stock of **Air Canada** ([TSX:AC](#))(TSX:AC.B) has slowed down the last few months after a magnificent rally the company enjoyed last year. There's no question that shares are ridiculously cheap right now, but given the fickle nature of the airline business, does it make sense to buy shares with the hopes of enjoying another upward surge? Or will the volatile stock be headed back to lower levels?

Warren Buffett is bullish on the airline industry right now. That's why he made a huge bet on a few American airline stocks. Buffett is all about the long-term buy-and-hold strategy, so he's normally not a fan of cyclical stocks like the airlines because they're usually horrible investments during an economic downturn. It was a huge surprise when it was announced that he was loading up on shares of various airline stocks last year.

Air Canada is riding some major tailwinds. The company is expected to reap the rewards of a strengthening economy, and the stock still trades at a huge discount to its intrinsic value. With a 4.42 price-to-earnings multiple, the stock is an absolute steal for deep-value investors. The airline industry is facing one of the strongest cyclical upswings in quite a while, as the earnings-growth momentum is expected to continue in the short to medium term.

The management team estimates that the company will continue its impressive growth streak in 2017 and that free cash flow will surge. I believe Air Canada has a ton of growth remaining, and the stock is just too cheap to pass on at current levels. Sure, a 4.42 price-to-earnings multiple looks like it's too good to be true. Many stocks with multiples this low are usually value traps, but not in the case of Air Canada. The company is on the upswing, and it doesn't make sense for shares to be this cheap, even if it is in an extremely cyclical industry.

If you are thinking about following Warren Buffett into the airlines, then make sure you realize that you could get hurt if you use the long-term buy-and-hold strategy. It's most likely that Buffett plans to sell his airline stake sometime in the medium term, so make sure you take profits off the table once the cyclical run starts to lose steam. Air Canada got obliterated during the Financial Crisis, and many investors holding the stock lost their shirts. Fast forward almost 10 years later, and the stock of Air Canada still hasn't rebounded from the massive crash it experienced.

I think Air Canada is a great medium-term investment, but only if you plan to take profits off the table in a year or two. This is not a typical Buffett buy-and-hold-forever type of stock because, like the planes themselves, they're pretty much guaranteed to go down after flying for a while.

## CATEGORY

1. Investing

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1. TSX:AC (Air Canada)

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## Date

2025/09/17

## Date Created

2017/03/07

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