Could Air Canada (TSX:AC) Stock Be a Contrarian Buy After Monday's Market Crash?

Description

Over the last two weeks, **Air Canada** (TSX:AC) stock has taken a major beating from the coronavirus panic. Although virtually all classes of equities have fallen in the same period, Air Canada has been hit particularly hard. With pressure on the company mounting, it has been forced to cancel flights to China and waive flight change fees for affected travelers. As expected, its shares have been in a free-fall. The current concerns will most likely result in Air Canada's revenue dropping for the current quarter, and may inflict longer-term damage.

However, there are some reasons to think that the stock could actually make a great contrarian buy. Not only is AC extremely cheap relative to earnings, it also has some factors going for it that could make this quarter's earnings better than expected. Before exploring that, let's take a look at where the world's most famous investor has been putting his money in the past month.

Warren Buffett is buying airlines

Warren Buffett is well known for his love of airline stocks. Over the years, he's bought stakes in several large airlines, and has only been adding to them. On February 27, the "Oracle of Omaha" made waves by upping his position in **Delta Airlines,** a company which **Berkshire Hathaway** now owns 11% of. It might have seemed like a strange move; after all, the ongoing virus panic will likely take a bite out of airline earnings. However, for those who are familiar with Buffett's investing style, the move makes perfect sense. Delta is now trading at just 5.5 times earnings, a historically cheap valuation. Even if the company does take a hit in the current quarter, it's cheap compared to an entire lifetime's worth of future cash flows. The same is true of Air Canada.

Fuel is getting cheaper

Right now, oil prices are crashing worldwide. This has partially been driven by coronavirus, but there are other factors behind it, like a Saudi-led price war. Generally speaking, cheap oil is good for airlines.

According to IATA, jet fuel is down 32% year-over-year. That will result in lower fuel expenses for airlines. While I'm not confident that it will offset the lost revenue from travel cancellation, it should provide a buffer. Further, if cheap oil continues after the coronavirus panic has subsided, then it could drive higher profits for airlines after normal travel resumes.

Foolish takeaway

Over the past 10 years, Air Canada has been a phenomenal stock market success story. Going from near bankruptcy to an overnight 10-bagger, it's been a remarkable turnaround. While the events in the world right now look ominous for airlines, Air Canada has bounced back from bigger setbacks than this. If the virus panic subsides, then Air Canada stock will almost certainly prove to have been a great buy.

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