



Warren Buffett May Be Interested in Buying Air Canada (TSX:AC) Stock

Description

It's not a mystery as to why Warren Buffett's been loading up on airline stocks over the past few years. They've faced a paradigm shift in the years since the Great Recession thanks to significant operational improvements, cost-saving efforts, and more fuel-efficient aircraft.

Simply put, they're no longer just bankruptcies or bailouts waiting for the next stock market crash to happen.

Amid cyclical downturns, the airlines are still subject to some severe turbulence, but on average, they're a heck of a lot better-positioned than they were prior to 2007-08. That doesn't mean they're immune from the recent [coronavirus \(COVID-19\) pandemic](#), however, which has suddenly made everything travel-related completely toxic!

This downturn is different...

Nobody foresaw a global pandemic. Although the airlines were well positioned to better ride out another broader economic downturn, it remains to be seen whether they can navigate through an industry environment with the potential to be far worse than the Great Recession.

Not only are consumers tightening their belts to prep for the coming recession, but they're also not going out and avoiding travel. Unfortunately, fear and paranoia could linger on for months after the coronavirus is wiped out.

That's a significant reason why airline stocks like [Air Canada \(TSX:AC\)](#) (TSX:AC.B) have lost well over half their value over just a few months. There's no doubt that the damage has been excessive.

While others sell their airlines in fear, Buffett finally has a chance to put his multi-billion dollar cash hoard to work in a sector he's adored so much.

For Buffett, it's like Christmas in March. The long-term thesis on the airlines is still intact, and the event-driven decline is temporary in nature, leaving Buffett an opportunity to pay a dime to get a dollar, so to

speak. For deep-value investors like Buffett, it's all about short-term pain for long-term gain.

Why would Buffett head north of the border for airlines like Air Canada?

Buffett's been spreading his bets across various U.S. airlines over the past few years. He's a raging bull on the industry. While he'd like to scoop up an airline entirely, sky-high (sorry for the pun!) regulatory hurdles likely stand in the way. So, he's limiting his exposure to a single airline and is spreading his bets.

After the latest downturn, the airlines are dirt cheap, and his percentage stakes (around 8%) in each of his favourite U.S. airlines may limit how much more cash he can pile into them without drawing too much attention from regulators.

Given Buffett has dabbled in the Canadian market over the years, a natural move is to fly north of the border to satisfy his airline fix with Air Canada — an airline that's grown by leaps and bounds since the fallout of the last crisis.

Not only would Air Canada give Buffett more geographical diversification, but he'll also be able to back the truck up on a name that isn't subject to the same regulatory hurdles.

Moreover, Air Canada trades at an absurd 0.35 times sales multiple, which is considerably lower than that of Buffett's latest bet, **Delta Air Lines**.

Foolish takeaway

Buffett remains a raging bull on the airlines, and he's likely licking his chops after the recent crash. He reportedly purchased nearly a million shares of Delta on February 27. Since then, the airlines have become a heck of a lot cheaper.

Sure, Buffett has likely lost billions on his airline bets, but he's one to double down when the going gets tough. Could Air Canada be next on his shopping list? I certainly wouldn't bet against that from happening as his stakes in U.S. airlines continue to swell.

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