



Warren Buffett's Latest Move Is Bad News for Air Canada (TSX:AC) Stock

Description

Early in the COVID-19 market crash, Warren Buffett made waves by buying **Delta Airlines** ([NYSE:DAL](#)) shares on the dip. Market watchers were astonished that he would buy a company that was certain to lose money in the months ahead. Yet for those who follow Buffett, the move made perfect sense. A stock Buffett was already a fan of went on sale, making it a more attractive buy.

For value investors like Buffett, it's ideal to buy shares when they're unjustifiably beaten down. In reality, you often have to buy on bad news. It's not very often that you'll see a company's share price decline for no reason whatsoever. So, get a discount price, you often need to buy when the going is tough.

In the early days of the market crash, that seemed to make sense. Now, however, the situation is a little different. With the pandemic escalating, there's a real possibility of airlines losing money for a prolonged period. With this information coming to light, Buffett has made a surprising move. And it's not good news for **Air Canada's** ([TSX:AC](#))(TSX:AC.B) shareholders.

Buffett reversed course on airline stocks

On April 3, **Berkshire Hathaway** submitted an SEC filing disclosing its March trades. One of the biggest was a massive sale of Delta Airlines shares. Buffett sold approximately \$314 million worth of them, [dwarfing the \\$45 million he bought in February](#).

The move wasn't necessarily a bearish signal on Delta. Buffett still owns 9% of the company — a stake worth billions. However, it may indicate that he's less enthusiastic about the company than he was a month ago.

Possible reasons

So far, Buffett hasn't commented on his reasons for shedding \$314 million worth of DAL stock. However, we can reasonably infer some possible reasons he reversed course.

First, with the COVID-19 pandemic escalating, it's beginning to look like air travel will be down for a while. When Buffett initially bought DAL, forecasts about the severity of the pandemic were much milder. Now, it's beginning to look like this will go on for a long time. If that's the case, passenger flights could be grounded for the entire summer, or longer. That will hit airlines in the pocketbook.

Second, there is always the possibility of bankruptcy. Airlines are capital-intensive businesses that need a lot of money to stay afloat. If flights stay grounded for a long time, many airlines could run out of capital and be unable to pay their creditors. If that happens, then bankruptcy is a real possibility.

Why it's bad news for AC

The reason Buffett's move is bad news for Air Canada is because that company is in largely the same boat as Delta. Primarily a passenger airline, it depends on people travelling to make money. With flights grounded, it's not making much.

On top of that, AC has a large amount of debt with huge interest expenses it can't service for long without revenue coming in. If passenger travel remains halted, it could be looking at [another bankruptcy](#).

Finally, Air Canada even has some liabilities Delta *doesn't* have, like a 737 Max 8 fleet that will likely be grounded even after the COVID-19 crisis is over. For this and other reasons, buying Air Canada on the dip right now is a very risky move.

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