



## Has Warren Buffett Turned Bearish on Airline Stocks Such as Air Canada (TSX:AC)?

### Description

Warren Buffett has one of the most successful investors in the stock market. He has built massive wealth over the years by identifying companies that are trading at prices lower than their intrinsic value but have strong fundamentals.

Warren Buffett historically avoided investing in highly volatile businesses, such as technology and airlines. However, this has changed in the last few years, as **Berkshire Hathaway's** portfolio consists of companies such as **Apple**, **Amazon**, **Delta Air Lines**, **American Airlines**, and **Southwest Airlines**.

### Is Warren Buffett moving away from airline stocks?

As several governments have closed their borders, airlines around the world have had to ground their flights. The travel and tourism industry has come to a standstill due to the COVID-19 pandemic, and this has decimated stock prices of companies, including **Air Canada** ([TSX:AC](#))(TSX:AC.B), **Expedia**, and several others.

Delta Airlines has lost 60% in market value this year, while stocks of American Airlines, Southwest Airlines, and Air Canada are down 61%, 37%, and 62%, respectively in 2020.

According to [Berkshire Hathaway's SEC filings](#), the company sold 2.3 million shares of Southwest Airline and 13 million shares of Delta Air Lines, generating close to \$400 million in proceeds. However, the insurance giant still owns over 45 million shares of Delta Airlines and close to 50 million shares in Southwest Airlines.

The sale in airline stocks by Berkshire comes as a surprise, as it bought 976,000 shares of Delta in the last week of February at an average cost of US\$46.4. Delta stock is currently trading at US\$23.23.

### Why airline companies will be volatile in the near term

While Warren Buffett has reduced his stake in airline stocks, he has not yet turned bearish on the sector. Several economists are predicting a global recession that may be far worse compared to the financial crisis of 2008-09, and this would have resulted in a decrease in holdings for Berkshire's airline companies.

The shutdown of businesses, schools, and colleges has driven consumer spending significantly lower. Unemployment rates are expected to spiral, and though governments are pumping in trillions of dollars to revive the economy, it may not be enough.

If countries are able to bring the dreaded COVID-19 under control, the airline sector is unlikely to stage a quick turnaround as they underperform in an economic downturn. These companies are capital intensive, which puts a massive strain on financials. In order to cut costs, Air Canada and peers have temporarily laid off thousands of workers.

However, on the bright side (if there is one), Air Canada was one of the top-performing stocks in the last decade. The company's stock price rose from \$1.2 in February 2009 to a record high of \$52.7 in 2020. This means a \$1,000 investment in the company back in 2009 would have ballooned to \$43,500 in February 2020.

Air Canada has a strong balance sheet and is confident about its resuming operations once normalcy resumes. We [can see here that](#) Air Canada's cash balance has risen from \$1.4 billion in 2009 to \$5.9 billion right now, while its adjusted net debt has reduced from \$5.8 billion to \$2.8 billion in the same period.

Air Canada stock is trading over 50% higher than its 52-week low of \$9.26. Contrarian investors looking to add airline stocks to their portfolio can consider Air Canada right now.

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