



## Is This Battered Airline a Contrarian Buy?

### Description

There's a reason why Warren Buffet of yesteryear hated airline stocks. At that time, Buffett stated that the investing world would've been "done a favour" if someone had shot down the Wright brothers' plane. While his philosophy changed in recent years and he purchased shares of major American airline companies, I still tend to adhere to his previous view.

Recent events have certainly reinforced negativity toward airlines. Although though no one could have foreseen that a pandemic was going to ravage the globe, there were signs that global economies were in trouble. When economic conditions worsen, it almost inevitably hits the airline industry.

### Our Canadian airline

**Air Canada** ([TSX:AC](#))(TSX:AC.B) stock was a huge winner for many investors prior to its disastrous 2020. The stock moved up steadily from the resolution of the previous crisis until its recent collapse. The company reached its high of about \$50 a share only a little over a month ago before falling to the current sub-\$20 level.

Personally, I wasn't very interested in Air Canada as an investment and have been negative on its stock performance for some time. But as negative as I was, I didn't foresee the carnage that investors have felt over the past month.

It's really the worst-case scenario for an airline. No one is travelling. No one is leaving their homes. Borders are closed. Even after this is all over, it's quite likely that many people will continue to avoid travelling.

While many people may remain fearful, others may just want to avoid the additional screening measures that will likely remain in place following the pandemic.

### Its financials heading into the crisis weren't bad

One good bit of news regarding the company is the fact that prior to the crisis, things were going pretty well. Air Canada had [a good balance sheet](#) and reported pretty strong financial reports. Its costs, such

as fuel, had also come down in recent years, increasing profitability.

In its February annual report, things were looking pretty good. Revenues increased by 6.6% over 2018's annual results. Net income had increased to \$1.476 billion from an annual income of \$37 million in 2018. It had a free cash flow of \$2.075 billion in 2019. Everything looked great.

## The bottom line

Air Canada's stock is certainly lower than it was a little over a month ago. It has been more than cut in half, devastating investors. It's certainly cheaper than it was before, to be sure, but it could get cheaper still.

If there is a major recession following the pandemic, increased regulations, and a fearful public, the company could be facing pain for years to come.

Personally, I wouldn't touch it with a 10-foot pole, but I have held that view regarding airlines in general for a long time. It doesn't really have net debt, which makes it attractive on that front.

Besides, given the pessimism facing the company, it could be a good time for [a brave contrarian](#) to get in. But with no dividend and a poor outlook, it's certainly not for me.

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