



Air Canada (TSX:AC): Get Ready for Warren Buffett

Description

Air Canada ([TSX:AC](#))(TSX:AC.B) stock has collapsed following the coronavirus pandemic. Shares have lost more than 50% of their value since the year began. But there's light at the end of the tunnel: Warren Buffett could be gearing up to buy Air Canada stock.

It's not difficult to connect the dots. Buffett and his holding company, **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) are some of the largest airline shareholders in the world. At one point, Buffett was the top one or two stockholders of *four* different airlines.

The airline industry has clearly gotten the stamp of approval from the Oracle of Omaha. But recent stock sales have caused some [worry](#). Has Buffett soured on airline stocks?

As we'll see, the story is much more [complicated](#). And if you're willing to be bold and exercise some patience, you can make massive profits by investing in Air Canada *before* Buffett makes the jump.

This is what Buffett loves

For years, Buffett refused to touch airlines stocks — and for good reason. The industry regularly saw massive bankruptcies, and long-term profits were nowhere to be had. "I think there have been almost 100 airline bankruptcies," Buffett told *CNBC* in 2017. "I mean, that *is* a lot. It's been a disaster for capital."

In 2008, Buffett joked that you could have have done future investing generations a favor by shooting down Orville Wright's plane at Kitty Hawk. But times have changed.

"It's true that the airlines had a bad twentieth century," Buffett later said "They're like the Chicago Cubs. And they got that bad century out of the way. The hope is they will keep orders in reasonable relationship to potential demand."

In 2017, Berkshire Hathaway bought stakes in **Delta Air Lines, United Airlines, American Airlines, and Southwest Airlines**. Today, Buffett is still one of the largest shareholders.

What changed? The industry turned rational.

“Buffett said the airline labor problems from previous years have been mostly resolved,” noted David Kass, a professor at the University of Maryland. “You’ve had a consolidation and the airlines are less likely to have suicidal price competition.”

You’ve likely experienced this in your personal travels. Planes run much closer to full capacity, and it’s become much harder to score lucrative deals. At least, that is, until the coronavirus pandemic began.

Today, planes are flying nearly empty. Delta, for example, is burning more than \$50 million per day trying to stay alive. A massive government bailout is all but guaranteed.

But there’s a silver lining here — one that should catch the eye of Buffett once conditions bottom.

Air Canada is a top pick

Buffett refused to buy airline stocks for decades. Then, in one fell swoop, he dedicated billions to the industry. The main event was *consolidation*.

In North America, there aren’t many large carriers left. Last year, for example, Air Canada had a 46% domestic market share. Westjet had a 34% market share, meaning that two-thirds of the entire domestic market was dominated by two firms. This dynamic is fantastic for profits as it reduces competition, raising prices along the way.

Compare these figures to the U.S., where no firm has a market share of more than 20%, yet *four* firms have market shares of around 15%. While this is still a major improvement from previous decades, it’s nowhere near as attractive as Canada’s market.

Notably, Buffett has trimmed his airline bets in recent weeks, which is likely due to the complete lack of clarity. The industry will need a bailout, but of what magnitude and on what terms?

Once that certainty is resolved, expect Buffett to dive back in. When he goes bargain shopping, he’ll see everything he loves and more in Canadian airline stocks. As the industry leader, Air Canada should be at the top of his list.

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