



Air Canada (TSX:AC) Investors: Don't Expect a Warren Buffett Bailout

Description

Many **Air Canada** ([TSX:AC](#)) investors are in the stock because they think the company is one of those “too big to fail” enterprises. It won't go to zero because there are too many interested parties that will keep the company afloat.

The obvious bailout source is the Canadian government, naturally. After all, part of the reason why Air Canada is in this mess today is because Canada shut down its borders. It's not unreasonable to expect some sort of compensation for that.

The United States government is readying a relief package for its beleaguered airline industry, opening the door for something similar here. And investors should remember that Air Canada was previously owned by the federal government. There's still a close relationship between Air Canada and the feds.

But at the same time, there are several issues with the bailout theory. In 2009, the Canadian government participated in a bailout package that rescued the major car companies from bankruptcy.

This deal still allowed shares to go to zero, and Air Canada deal could be similarly destructive to shareholders.

A bailout could also dilute existing shareholders substantially. Remember, in tough economic times like we're experiencing today, a deal that helps out a lot of wealthy shareholders might not be very popular politically.

One theory I've seen bandied about is the suggestion that Warren Buffett will come and rescue the airline industry, Air Canada [in particular](#). I don't think that's in the cards for Air Canada investors.

Here's why.

Buffett isn't buying, he's selling

Something interesting has happened during this recent market selloff. Despite telling investors for

years that he was saving cash for the next buying opportunity, it doesn't look like Buffett has bought much of anything lately.

In fact, the only disclosures from the Oracle of Omaha so far have been sell orders. **Berkshire Hathaway** has lightened its position in bank stocks and, most interestingly, it has also been selling stakes in the largest U.S. airlines.

It's easy to envision a scenario where Buffett has suddenly turned bearish on the airlines. After all, nobody saw this pandemic coming. It has ground air travel to a virtual halt, even domestically. And Buffett has his friend Bill Gates on speed dial — someone who thinks the world will take years to go back to normal.

Amid all this, I wouldn't be surprised if Buffett has been quietly selling his airline stocks in the United States. He just disclosed the initial sales because he was forced to, something he has to do because Berkshire owned more than 10% of shares outstanding.

Is Buffett too scared to act?

An interesting article came out in the *Wall Street Journal* on Friday. [Charlie Munger](#) — Buffett's right-hand man — told columnist Jason Zweig that Berkshire has essentially been sitting tight and not doing much of anything during this market crisis. They're waiting for the phone to ring, but companies aren't calling because they're waiting for government bailouts.

Munger also mentioned that Berkshire wants to make sure it has ample liquidity to make it through this storm unscathed.

Although Munger doesn't necessarily speak for Buffett, the two continue to be close. It leads me to believe Berkshire Hathaway isn't buying much of anything right now. If that's the case, then an Air Canada bailout is especially unlikely.

The bottom line on Warren Buffett and Air Canada

As much as struggling Air Canada investors would like to see it, I just don't think it'll happen. Warren Buffett isn't coming to Air Canada's rescue anytime soon.

The good news is that the company may not need the Oracle of Omaha. Air Canada has already tapped various stimulus packages offered by Ottawa, and the government will be open to a bailout package if needed.

The only issue is whether that bailout package will help shareholders. I'm not sure of the answer, however, which is why I'm avoiding Air Canada shares today.

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Author

nelsonpsmith

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