



Air Canada (TSX:AC): Warren Buffett May Be Hungry for a Big Stake

Description

If Warren Buffett announces that he's initiated a stake in **Air Canada** ([TSX:AC](#)), you can count me as unsurprised.

The Oracle of Omaha is known to have an affinity for the airline industry. Yet he has been lowering his stake across a wide range of U.S.-based airlines in April. In all likelihood, this is to avoid the regulatory hurdles that come with owning +10% of a company.

In my view, this makes Air Canada seems like an obvious next target for Buffett.

A stake in Air Canada would allow Buffett to increase his bet on the ailing airline industry while minimizing the regulatory implications that can come from large ownership stakes and/or a government bailout. A Canadian airline investment would also provide a bit of geographic diversification to his airline bets.

Air Canada stock has become too cheap to ignore for deep-value investors like Warren Buffett

Air Canada stock fell a staggering 77% from peak to trough amid one of the worst industry disruptions in recent memory. Although the Canadian airline looks much more liquid than many of its American peers, its stock continues to take a beating.

With chatter of potential bankruptcy, bailouts, and even a \$0 share price, it seems nuts to want to try to be a hero with a name like Air Canada. At today's severely depressed valuations, however, it's hard to ignore a name that could be an unprecedented value proposition for investors with a long-term time horizon.

Many long-term thinkers probably view Air Canada at \$18 as a potential opportunity to pay a dime to get a dollar. At the time of writing, Air Canada stock trades at just 1.1 times book. This makes the name considerably cheaper than many of the major U.S. airlines.

Is Warren Buffett running out of U.S. airlines to invest in?

There's no question that Warren Buffett has been a raging bull on airline stocks. With valuations plummeting, he's probably licking his chops at the thought of upping his stake in the industry.

But with government bailouts looming, Buffett may have a tough time. Higher percentage stakes in a company mean more regulatory red tape. Basically, the last thing anybody wants at this juncture. There are only a limited number of U.S. airlines. And even a sub-10% stake in each one of them may not be nearly enough to satisfy Buffett's bullishness on the industry at these new depths. As such, Air Canada may be the perfect solution to Buffett's problem.

Foolish takeaway

With new talks of a gradual re-opening of the economy, the worst may finally be over for the airlines. But if Warren Buffett were to initiate a stake in Air Canada, you can bet that he'd do so incrementally, as the layers of uncertainty in this [perplexing market](#) are peeled away like the layers of an onion.

Buffett knows that even the cheapest stock in the world can become cheaper at the drop of a hat. A dirt-cheap deep-value play like Air Canada is no exception. A second wave of the coronavirus could spark a "lockdown 2.0." If that happened, airline stocks would likely fall under [another bout of pressure](#) in the fourth quarter of this brutal year.

If Warren Buffett is still bullish on airlines over the long term (and I think he is), Air Canada may be next up to the plate. I think the ridiculously cheap stock provides a better value proposition than most other international airlines out there.

Stay hungry. Stay Foolish.

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