



Air Canada (TSX:AC): Will the Stock Keep Crashing in 2020?

Description

The [ongoing market crash](#) is devastating investment portfolios all around with double-digit losses. If you are an investor with shares of airline stocks like **Air Canada** ([TSX:AC](#)), you might know what I'm talking about. It is one of the worst-hit stocks trading on the **Toronto Stock Exchange** right now.

At writing, the **S&P/TSX Composite Index** has fallen 18.72% from the start of 2020. In the same period, Air Canada has seen a share price decline of a terrifying 65.80%. This is one of the worst nosedives we have seen.

Is it undervalued?

Air Canada is trading for a drastically lower price than it has historically. While the share price is down from the value it typically trades for, we cannot call it a discounted or undervalued stock. The airline industry has a reputation for suffering massive drops during economic crises.

With the cyclical nature of the industry and fixed operating costs, it looks like the companies await government bailouts as a part of their operations. Over the past few years, Air Canada, along with many other airlines, improved its fundamentals. If the economic crisis did not occur due to a pandemic, it could even be thriving right now.

Airlines swell with profits when the economy is healthy. As the next upswing in the economy comes around, Air Canada might make a significant recovery. The problem with it is that its liquidity will dry up eventually, and its profits will go away.

What is the Oracle of Omaha doing?

While [Warren Buffett](#) has yet to make any moves on Air Canada, there are chances he might. Buffett refused to buy airline stocks for decades, but he suddenly chose to buy billions' worth of airline stocks in one swoop.

2017 saw Buffett's **Berkshire Hathaway** buy shares of **Delta Airlines, United Airlines, Southwest Airlines**, and **American Airlines**. He is still one of the most significant shareholders in the industry. What changed?

Buffett suggested that the broader airline industry is changing and becoming rational, and airline labour problems from the past have been resolved. Buffett has recently trimmed some of the holdings in the airline sector. It is likely due to a lack of clarity. I think there is a chance the industry might require a bailout.

Once the uncertainty gets resolved, Warren Buffett might dive back in. As the pandemic ends, people will look to travel, and business might be phenomenal for the stocks. Air Canada could be a pick for Warren Buffett, since it holds a significant share of the airline sector in Canada.

Foolish takeaway

I think Air Canada could be an interesting buy right now. It is more liquid right now than it was in the financial crisis of 2008. The stock might be more liquid by the time another crisis comes. It may not even require a government bailout. I would call Air Canada a cautious buy but for the long haul.

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