



## Warren Buffett Exits Airline Stocks! Should You Sell Air Canada?

### Description

Investment mogul Warren Buffett announced that he has dumped airline stocks. The Oracle of Omaha has bailed on airline companies; **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) [exited positions in Delta Air Lines, Southwest Airlines, American Airlines Group, and United Airlines Holdings](#).

The aviation industry has been decimated due to the COVID-19 pandemic. As world governments have shut borders and announced countrywide lockdowns, domestic and international air travel have taken a massive hit.

Berkshire Hathaway had over a 10% stake in Southwest and Delta Air Lines at the end of 2019. The investment giant reduced its holdings in airline companies last month and has now completely exited this space.

The future of the air travel industry is uncertain. It's a capital-intensive business, and several companies are burning millions of dollars each day. Most airlines have announced temporary layoffs, and this situation can go from bad to worse in a matter of a few months. If coronavirus cases continue to increase at the global level, airline stocks could go bankrupt.

Passengers will avoid crowded public spaces such as airports in the near future. Even if governments manage to contain the virus, global economies have taken a significant hit. The unemployment rate in Canada stands at 7.8% as of March 2020. Over 1.1 million Canadians are unemployed, up from just 125,000 during the financial crisis of 2008.

The economy will take a few more months to revive after COVID-19. The travel and tourism sector take longer than most industries to stage a comeback after an economic recession. Airline manufacturer **Boeing** predicted that it would take years before air traffic returns to pre-pandemic levels.

## Should investors follow Warren Buffett and exit stocks such as Air Canada?

Canada's top aviation company **Air Canada** ([TSX:AC](#)) created massive investor wealth in the last decade. Air Canada stock rose from \$0.84 in April 2009 to its record high of \$52.71 earlier this year. This indicates cumulative returns of 6,100% in 11 years.

Now, the stock is trading at \$19.3, which is 63% below its record high. Air Canada is one of the better airline companies in terms of balance sheet strength. Though it has a debt of \$9.24 billion, the company's cash balance stands at \$5.9 billion, at the end of 2019.

Air Canada has delayed capital expenditures and has targeted cost savings of \$500 million in 2020. While air traffic is down over 90%, Air Canada is looking to offset a part of this decline by running cargo flights and transporting essential goods.

The first six months of Air Canada will result in significant considerable revenue declines for the company. But this pullback has already been priced in the stock. Investors will now be watching to see if Canada and other countries will be able to successfully re-open businesses and revive the economy.

If the COVID-19 pandemic continues to impact enterprise revenue in the second half of the year, recession fears will come true, and airline companies will struggle to survive.

Warren Buffett famously said that you need to be greedy when others are fearful. But there is a difference between an undervalued stock and an entire industry that might be on the verge of collapse.

For current Air Canada investors, this is a high-risk, high-return scenario. Air Canada might [crush market returns](#) or wipe out investor wealth by the end of 2020. The airline sector has stumped Warren Buffett — a supreme being in the financial world.

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3. TSX:AC (Air Canada)

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