



## Warren Buffett Sells Airlines: Is it Time to Bail on Air Canada (TSX:AC)?

### Description

Major sectors of the Canadian economy have been ravaged by the impacts of the COVID-19 pandemic. The airline industry has perhaps been hit the hardest. That is why investors were interested when Warren Buffett bet big on the industry earlier this year.

International travel has essentially ground to a halt. Airlines have not faced a crisis that has so sharply impacted day-to-day operations since the aftermath of the attacks on September 11, 2001. The sector took roughly half a decade to recover from that tragedy, and it is impossible to calculate the long-term effects of the current crisis.

Today I want to discuss Warren Buffett's airline strategy and how investors should react in early May.

### Warren Buffett: The airline bet

Back in early March, I discussed Warren Buffett's [big bet on the airline sector](#). Buffett reportedly acquired **Delta Air Lines** shares for roughly \$45.3 million. This grew his holding in the stock to over 70 million shares. **Berkshire Hathaway** also owned a significant stake in United Airlines, **American Airlines**, and **Southwest Airlines**.

Warren Buffett ushered in a wave of pessimism in early May. The legendary investor said that he had sold off his large stakes in four airlines at a loss. Stocks of the U.S.-based airlines fell in response to Buffett's statements. Buffett was a major player in the aftermath of the 2007–2008 financial crisis, scooping up blue-chip stocks at bargain prices and winning big over the past decade. His apparent lack of faith in the airline industry, at least in the near term, might inspire some investors to re-evaluate the industry right now.

### Should you stay away from Air Canada stock?

Late last month, I discussed why **Air Canada** ([TSX:AC](#)) had the [ability to bounce back](#) from this crisis. Meanwhile, Warren Buffett's statements were not the only thing that brought down airline stocks to kick

off the month of May. Air Canada's own outlook was very pessimistic.

On May 4, Air Canada reported a \$1.05 billion loss in the first quarter of 2020. This was down from a \$345 million profit in the prior year. In the earnings call, the company projected that the impacts of the pandemic would stretch for three years. It painted this as the "darkest period ever" for the commercial aviation industry. This gloomy outlook is something investors cannot ignore.

"We expect that both the overall industry and our airline will be considerably smaller for some time," said CEO Calin Rovinescu. "[This] will unfortunately result in significant reductions in both fleet and employee levels."

Air Canada is facing huge challenges due to the COVID-19 outbreak. However, it is much better prepared than it was in 2008. The company has built up a strong cash position and ended Q1 2020 with \$6.5 billion. Shares of Air Canada have plunged 65% in 2020 as of close on May 6. Airlines will take their lumps in this crisis, but Air Canada has the balance sheet and the organizational strength to emerge in a good position. Value investors may want to consider plotting an entry point as it nears a 52-week low.

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