



## Warren Buffett Dumps All Airline Stocks: Avoid Air Canada (TSX:AC)?

### Description

The crash landing of the airline sector is clear as day now that billionaire investor Warren Buffett has raised the white flag. **Berkshire Hathaway** announced the sale of all its airline stocks on May 4, 2020. The [holdings of Buffett's conglomerate](#) were in four largest U.S. carriers.

Buffett is being practical and not acting out of fear. He has had it with the industry he was highly critical of since 2007. But when the likes of **Delta Air Lines**, **Southwest Airlines**, **American Airlines**, and **United Airlines** were posting consistent profitability in 2010, Buffett scooped up the airline stocks.

### Change of heart

Buffett's view of the industry is changing with the COVID-19 pandemic. The time to cash out has come. His airline stocks contributed to the \$50 billion net loss of Berkshire in the first quarter of 2020.

According to the value investor, the industry's demise is not the fault of the CEOs who are steering the airline companies. Buffett adds that the airline business has changed in a significant way. Industry groups are reporting significant declines in aircraft and passenger volume. The drop is more than 90% compared with a year ago.

### Grim scenario

For decades, airline companies have been reporting either profits or losses. But Buffett admits now that airlines are perennial money losers. A grim industry scenario is developing. If one airline declares bankruptcy, it could start a domino effect and lead to more bankruptcies.

**Southwest Airlines** CEO Gary Kelly admits the demand is not there. However, he believes the worst of the pandemic is over. But if things don't improve, airline companies would have to downsize.

## Cataclysmic effect

Canada's flagship carrier is in the darkest period of its storied 83 years of existence. **Air Canada** ([TSX:AC](#)) filed for bankruptcy in 2003 and must be on the verge of declaring one again. The company survived 9/11, the SARS scare, and the 2008 financial crisis. But the effects of the novel coronavirus are [cataclysmic](#).

Air Canada CEO Calin Rovinescu is resigned to the fact that the company will have fewer flights and lower earnings for the next three years. Rovinescu views flight capacity to remain down by as much as 90% in the second quarter of 2020. The capacity reduction should be around 75% by the third quarter.

Air Canada's loss in the first quarter of 2020 is a massive \$1 billion. For the first time in 27 years, the largest airline in Canada has no revenue growth to show. Revenue for the quarter fell by 16% versus a year ago.

The plan now is a permanent size reduction in both fleet and employees. Air Canada will be operating on a limited scale for some time. The governments of other countries are already pumping in billions of dollars to save airline companies. Air Canada is still waiting for the federal government to come to its aid.

## Telltale sign

The decision of Warren Buffett to dump all stakes in the airline industry is a telltale sign. There are too many variables that major airline companies need to address before staging a comeback. The travel business is dead in the water for now — and so is Air Canada.

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