



Air Canada Stock Is Down 30% This Month After Warren Buffett Dumps Airline Companies

Description

Shares of Canada's airline giant **Air Canada** ([TSX:AC](#)) have fallen over 30% this month, at the time of writing. This stock has been volatile in the recent past, and for good reason. Shares were trading at record highs at the start of 2020. However, the COVID-19 pandemic has completely decimated the airline and travel sectors.

Economies have come to a standstill, as governments all around the world have shut their borders. Air traffic for Air Canada and peers have fallen close to 90% in the last month, which has led to a significant decline in stock prices. Air Canada stock is currently trading at \$14.1, which is 73% below its record high.

Air Canada stock touched a multi-year low of \$9.26 in mid-March. It then recovered to trade above \$21 at the end of April. Since the start of May, shares have nosedived yet again. So, what has driven the stock lower in the first half of May 2020?

Warren Buffett dumps airline stocks

Earlier this month, noted investor Warren Buffett [announced his exit](#) from the airline sector. Buffett-owned **Berkshire Hathaway** dumped its entire stake in top airline companies such as **Delta Air Lines**, **Southwest Airlines**, **United Airlines Holdings** and **American Airlines Group**. Buffett admitted that he was wrong to invest in the airline sector.

Warren Buffett has generally advised investors to remain greedy in a market sell-off. However, he recently confirmed that Berkshire Hathaway was a net seller of stocks in April. Does this mean the Oracle of Omaha forecasts more pain ahead for Air Canada investors?

Airlines are capital-intensive businesses and are burning millions of dollars each day just to stay afloat. It's also a cyclical industry and among the worst-hit in an economic downturn. Right now, there are a lot of uncertainties surrounding the COVID-19 pandemic, and no one knows for sure what the future

holds. It might take years before normal air traffic resumes.

What next for Air Canada and investors?

To counter the impact of low air traffic, Air Canada has delayed capital expenditure this year. It has also targeted cost savings of \$500 million in 2020. The Canadian airline has been [running cargo flights](#) to transport essential commodities and offset a part of the revenue decline. However, despite taking these steps, Air Canada, like most other peers, might need a bailout if lockdowns persist.

The next six months remain extremely critical for companies in the airline space. In case governments can successfully contain the dreaded virus, they might re-open their borders. This might increase the demand for domestic and international flights. There is also the probability of a second wave of COVID-19 impacting the global populace, and if things take a turn for the worse, most air carriers will file for bankruptcies.

Air Canada has created massive wealth for investors in the last decade. It was, in fact, one of the top-performing stocks in the TSX. Between the start of January 2010 and the end of December 2019, Air Canada stock returned a staggering 3,700%. However, given Warren Buffett's stance on the airline sector, investors should exercise caution and wait till borders re-open and the current uncertainty to disappear to invest in Air Canada.

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