



Warren Buffett Dumps Airlines: Time to Sell Air Canada (TSX:AC)?

Description

Warren Buffett is acting a bit [peculiar](#) in the 2020 market crash. The astute billionaire investor is gun shy and not in a hurry to use his US\$137 billion cash stockpile. Why? The chairman of **Berkshire Hathaway** says the coronavirus-induced crisis is different.

In the second quarter of this year, Buffett became a net seller of stocks instead of an aggressive buyer. His most significant move so far is the sale of Berkshire's entire stakes in four large U.S. airline companies. The value investor is confirming now that his disdain for the airline industry since 2007 was right after all.

Buffett's reversing course on airline stocks will influence investors across the border. If you have holdings in **Air Canada** ([TSX:AC](#)), should you [dump the TSX stock](#)?

Deal-making days not over

There were American companies that approached Berkshire for financial assistance when the pandemic was raging. But the U.S. Federal Reserve intervened before Buffett's conglomerate can extend help. The companies got the needed funding support.

According to Buffett, he sees no attractive investments at this time. He will remain motionless because the range of economic possibilities is extraordinarily broad. Berkshire has no intention of propping up a business with constant losses.

However, Buffett is not closing the door to future investments. He could return to deal-making mode. It could be next week, next month, or next year depending on the scenarios that will play out.

So far, he is keeping his two TSX gems, **Suncor Energy** and **Restaurant Brands International**. Buying into Air Canada is out of the question.

Doomsday

Air Canada will start operating with 150 flights weekly in the second quarter of 2020. That would have been good news for the ailing company. Unfortunately, they are all-cargo flights only. This \$4.49 billion company is still on a passenger flight lockdown.

The cargo-only flying will drive revenues during the second quarter but will not prevent the company from a crash landing. On May 4, 2020, Air Canada reported a steep loss in Q1 2020. The stock's year-to-date loss, as of this writing, is almost 65%. In 2019, the full-year gain was 86.9%.

The revenue drop and deterioration of operating losses during the first quarter were sharp and quick. But the real extent of damage will be known when Air Canada reports Q2 2020 results.

Time to let go

How else would Air Canada recoup the adjusted net loss of \$392 million in Q1 2020 and the quarterly losses that will accumulate? Aside from a federal government bailout, the global airline industry should stabilize first. Even with attractive travel packages after the pandemic, passengers will be few and far between.

The future is bleak, as Air Canada CEO Calin Rovinescu revealed. It will take Canada's flag carrier at least three years to climb back to 2019 levels. That will be in 2024, assuming there is a total containment of COVID-19 in 2020.

After its record run of 27 consecutive quarters of year-over-year revenue growth, Air Canada would be posting quarters of zero growth. It's time to follow Buffett and throw in the towel on airline stocks.

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