



Is Air Canada (TSX:AC) Stock Going to \$30?

Description

Air Canada ([TSX:AC](#)) stock is on fire. Since March 19, shares have risen by 50%. Now valued at \$18, the stock appears ready to hit \$30 by the end of the year.

But there's a catch. As you can image, investing in airlines is a difficult decision in light of the ongoing coronavirus pandemic. Uncertainty has never been higher.

"We are now living through the darkest period ever in the history of commercial aviation," says Air Canada CEO Calin Rovinescu.

We're now at a crossroads. Times are dark and visibility is limited, but that's exactly the period when potential investment returns are *highest*. As Warren Buffett [says](#), "Be greedy when others are fearful."

Another popular Buffett quip is, "Our favourite holding period is forever." If you're willing to [buy and hold](#) through the noise, is there a chance Air Canada stock will rise another 50% to hit the \$30 mark?

Get excited!

Air Canada's CEO says that this is the most difficult period ever in commercial aviation. That may be true, but in some respect, it could make the industry *tremendously* more resilient in the years and decades to come. All we have to do is look at history.

Throughout most of his investing career, Buffett refused to invest in airlines like Air Canada.

"I have an 800 (free call) number now that I call if I get the urge to buy an airline stock," he told a reporter in 2002. "I call at two in the morning and I say: 'My name is Warren and I'm an aeroholic.' And then they talk me down."

But then a funny thing happened. Last year, he was one of the top shareholders for *four* different airlines. What changed? The industry *consolidated*.

For most of its existence, the airline industry was rife with oversupply. It was hard for anyone to make money. Then a tonne of airlines went bankrupt. Oversupply dwindled, and profits emerged.

This year should be another year of unprecedented consolidation. Air Canada, for example, cut 90% of its capacity. Many competitors will go bankrupt.

As one of the better-financed companies, Air Canada has an opportunity to take market share from the competition. Even if the overall pie is smaller, the company will command a much bigger slice.

Is now the time to buy?

Should you buy Air Canada stock?

In five years, I expect AC stock to be higher than today's trading price. Due to impending consolidation, it's hard to see the company failing to take market share.

The problem is that it will take a *long* time for positive gains to accrue.

"It is our current expectation that it will take at least three years to recover to 2019 levels of revenue and capacity," cautions Air Canada's CEO. "We expect that both the overall industry and our airline will be considerably smaller for some time, which will unfortunately result in significant reductions in both fleet and employee levels."

Even Warren Buffett has thrown in the towel.

"We put, whatever it was, seven or eight billion into [airlines] and we did not take out anything like seven or eight billion," Buffett told shareholders this month. "That was my mistake. We have sold the entire positions."

There will be a time when Air Canada stock is a screaming buy. But with *years* of trouble ahead, only very patient investors should take a position.

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