



## Delta Air Lines Just Showed Why You Should Sell Air Canada (TSX:AC) Stock

### Description

**Delta Air Lines Inc.** ([NYSE:DAL](#)) has some bad news. Only July 14, it posted a bigger-than-expected loss. Airline investors hoping for a return to normalcy were [shocked](#).

“We are now four months into the pandemic, and the nearly \$4 billion pre-tax loss that we just posted, reflects the severe impact that COVID-19 is having on our company and our industry,” CEO Ed Bastian explained.

Earlier this summer, many analysts expected a sharp [uptick](#) in airline traffic, buoyed by leisure travel and a rebound in business activity. The latest resurgence in case numbers threw cold water on those hopes.

“We’re expecting our overall revenue for the September quarter will be only 20% to 25% of what we saw last summer,” Bastian warned. “And we’ve seen demand growth flattened recently with the rise in COVID-19 cases. We’re watching trends closely and have pared back our capacity plans for August.”

Of course, Delta doesn’t operate in a bubble. None of its current challenges are unique to its particular business model. The entire industry is in turmoil. Nearly every operator is generating multi-million dollar losses on a *daily* basis.

“In June, our daily cash burn for the month averaged \$27 million a day,” Bastian revealed. This is actually a substantial improvement to the \$100 million per day in cash burn that the company experienced in March.

What does all of this mean for Canadian carriers like Air Canada? As you can imagine, the data is bleak

### What Delta says about Air Canada

For years, **Air Canada** ([TSX:AC](#)) was a special case. In 2012, shares were priced at \$1. At the start of 2020, they surpassed \$50.

The reason for this spectacular rise was industry consolidation. Warren Buffett famously avoided the airline sector for decades due to overly-fierce competition. But in recent years, he was persuaded to invest. Before the COVID-19 crisis, he was a leading shareholder of *four* different airlines, including Delta.

In 2012, Canada's airline market was a mess. Fast forward to today, when Air Canada controls roughly half of the domestic market. This dominant position creates more rational pricing, a direct boon for profits.

There's no doubt that Air Canada executed flawlessly over the last eight years, but the coronavirus is the great equalizer. Known for his multi-decade holding periods, Buffett has already sold *all* of his airline stock. His Delta position was not spared.

Despite a terrific management team and a strong history of execution, Air Canada is stuck between a rock and a hard place. The pandemic won't subside for at least another year. That means the business will produce *another* four quarters of losses. Looking at its cash pile, that'll stretch its finances to a breaking point. Government bailouts will be needed.

There just isn't any clarity here. No one know what the industry will look like in a few years, nevertheless in a few quarters. Several major operators have already gone bankrupt. More will be added to the list before 2020 is finished.

Delta's surprise multi-billion dollar loss proves one thing: you can't trust the airline space right now, even high-quality carriers like Air Canada.

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