



## Air Canada (TSX:AC) Stock: 2 Facts Every Investor Must Know

### Description

**Air Canada** ([TSX:AC](#)) stock is controversial. Some investors believe the company will go bankrupt. Others think shares will rise two or three times in value.

The biggest thing to know is that uncertainty is [rampant](#). That's why future predictions are all over the place. These cases present extra risk, but the rewards can be lucrative.

If you want to make a bet, here's what you need to know.

### Consolidation is king

Airlines were a terrible investment for decades. Warren Buffett summed up the industry's history nicely. "I think there have been almost 100 airline bankruptcies," Buffett told *CNBC* in 2017. "I mean, that *is* a lot. It's been a disaster for capital ... If a far-sighted capitalist had been present at Kitty Hawk, he would have done his successors a huge favor by shooting Orville down," he concluded

This long stretch of underperformance isn't ancient history. From 2006 to 2009, Air Canada stock fell from \$20 to \$1. The problem was oversupply and fierce competition. With too many planes in the air, no single company could generate long-term profits.

By 2010, however, the industry turned a corner. Over the next decade, Air Canada stock would rise *50 times* in value! The driver was industry consolidation. Many airlines went bankrupt during the financial crisis of 2008, leaving the industry with fewer carriers. This improved pricing and capacity, finally creating a sense of balance in the market.

Even Warren Buffett joined the party, buying millions of shares in four different airlines.

"It's true that the airlines had a bad twentieth century," Buffett highlighted. "They're like the Chicago Cubs. And they got that bad century out of the way. The hope is they will keep orders in reasonable relationship to potential demand."

The coronavirus pandemic should only further industry consolidation. Before the virus hit, Air Canada controlled nearly 50% of the domestic market. Once the virus passes, the company could control a far greater share, increasing its pricing power even further.

## Stay patient with Air Canada

Industry consolidation will make some investors rich, but don't expect a turnaround overnight. How long will it take for the market to rebound?

Air Canada executives think the rebound will take roughly three years, but others are more pessimistic. Manufacturers like **Boeing** and **Airbus**, for example, expect the recovery to take closer to five years. **Delta's** CEO believes the industry will be *permanently* smaller.

Even Warren Buffett is worried about how long things will take to turn a corner. Earlier this year, he sold [all](#) of his airline stakes. That's a rare move for an investor known for his long-term, patient approach.

"When we sell something, very often it's going to be our entire stake. We don't trim positions," Buffett revealed. "I don't know that three, four years from now people will fly as many passenger miles as they did last year," he added. "You've got too many planes."

Airline incumbents like Air Canada still control big market shares, but the overall pie is smaller than ever. Last quarter, the company lost more than \$1 billion. It's still operating at just 5% of typical capacity.

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