



Warning: Warren Buffett Is Bearish on Air Canada (TSX:AC) Stock!

Description

Warren Buffett has changed his mind about investing in airline stocks — this time, for good. Back in 2007, the Oracle of Omaha had warned investors about the perils of investing in a capital-intensive sector that generates little profits, such as airlines.

In an investor letter, Buffett confirmed airline stocks can be one of the worst investments considering a durable competitive advantage has been elusive for several decades. Though airline companies continued to rake in sales, it was difficult to translate this growth into sustainable profits. This was due to a significant increase in competition and reinvestments to increase passenger capacity coupled with the addition of new traffic routes.

However, in the last decade, Buffett-owned **Berkshire Hathaway** owned stakes in four of the largest airline companies south of the border. While these airline stocks may not have been purchased by Buffett himself, this change in stance surely surprised investors.

According to Buffett, the airline industry landscape changed for the good in the U.S., as it had been dominated by just four major players since 2010, which accounted for 80% of the market.

However, the COVID-19 pandemic has hurt airline stocks like never before. As borders were shut, air travel came to a standstill. The global lockdowns have led to country-wide recessions, which will inevitably delay the recovery in airline companies. The capital-intensive nature of this business has meant companies are burning millions of dollars each day just to run their operations.

In May 2020, Warren Buffett accepted Berkshire had made a mistake by investing in the airline space and [exited this sector](#) for good.

Air Canada stock has lost 70% in 2020

Similar to its peers **Air Canada** ([TSX:AC](#)) has also burnt significant wealth in 2020. Air Canada was in fact one of the top-performing stocks of the last decade and returned a staggering 3,500% in that period. However, it is currently trading at \$16.1, which is 70% below its record high of \$52.71.

Will Warren Buffett buy this Canadian giant? Well, it is easy to connect the dots, and despite Air Canada's 50% market share in the domestic market, Buffett is unlikely to venture anywhere near the company.

The COVID-19 pandemic may have changed the way the world conducts business. The acceleration towards remote work coupled with the after-effects of the coronavirus and a sluggish economy may lead to significantly lower traffic for airlines over the next few years.

Industry experts believe that air traffic will reach pre-COVID-19 levels only by the end of 2022. Further, one industry CEO expects the airline industry will be permanently smaller in a post-COVID-19 world.

The uncertainties are weighing heavily on Air Canada and peers, and we can see why investors remain wary of betting on this once high-flying Canadian giant. Air Canada sales were down 89% in the second quarter, and it reported a net loss of \$1.75 billion.

Air Canada [slashed 50% of its workforce](#) and retired 79 of its aircraft to optimize the cost structure. While it ended Q2 with \$9 billion in liquidity, Air Canada remains a high-risk investment right now.

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