



## Warren Buffett Would HATE Air Canada (TSX:AC) Stock

### Description

It's no secret that Warren Buffett has soured on airline stocks in 2020. In the first quarter, he sold out of his entire airline portfolio, citing prolonged weakness in demand for air travel. For example, he sold **Delta Airlines** ([NYSE:DAL](#)), a robust airline that could ride out the pandemic with \$21.6 billion in liquidity. That's really bad news for **Air Canada** ([TSX:AC](#)), which is in much worse financial shape. Like Delta, Air Canada's revenue has tanked in 2020. Unlike Delta, it doesn't have the available liquidity to survive a crisis. In light of this, it's almost certain that Warren Buffett would *HATE* Air Canada stock.

### Massive cash burn

As of last quarter, Air Canada was burning through [\\$20 million in cash per day](#). The comparable rate for Delta in Q3 was [\\$24 million per day](#). These figures appear similar at first glance. But looks can be deceiving. Delta had a whopping \$21 billion in liquidity in the third quarter. Air Canada, by contrast, had only \$8.6 billion in cash and marketable securities. So, Air Canada has less ability to actually take cash losses than Delta does.

Based on this standard, it doesn't look like Buffett would like Air Canada stock. Buffett likes to invest in financially robust companies that can survive crises. Going by cash burn and liquidity, Air Canada does not meet this standard. The company could raise cash by issuing debt or equity. But that would lead to even more interest expenses or dilute shareholder value. So, it's not really a good option from an investor's perspective.

### Business in the gutter

It's no secret that Air Canada's business is in the gutter this year. Its revenue is down 89%, flights are down 90%, and management is expecting it will take three full years just to get back to 2019 revenue levels. These are all measurable signs that Air Canada is going through a crisis.

There are less-formal signs as well. For example, the fact that the company is struggling to give refunds to passengers. Back in April, AC was forced to cancel many passengers' flights for the spring.

It was unable to give refunds, citing a lack of cash. Instead, it offered re-usable travel vouchers. But according to reports, very few people have actually received those. The company's booking webpage reports a technical error when you try to claim your voucher.

On the bright side, AC did manage to come up with the funds needed to purchase **Transat**. But that's not going over well with customers, who think refunds should come first.

## Foolish takeaway

2020 just hasn't been Air Canada's year. It hasn't been most airlines' year either, but Air Canada has been hit worse than many others. The company has earned the dubious distinction of getting more U.S. refund complaints than any other foreign airline. That on top of cash burn, massive interest expenses, and tanking revenue is an ominous sign. It should go without saying that Warren Buffett would never touch a stock like this. It's bad enough that it's an airline in the age of COVID-19, but on top of that, the company is very poorly run.

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2. TSX:AC (Air Canada)

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