



Want to Buy Air Canada (TSX:AC) Stock? Here's What Warren Buffett Thinks

Description

Air Canada ([TSX:AC](#)) stock is on a lot of radars. Even Warren Buffett may be taking a look. It's not hard to see why.

From 2012 to 2019, Air Canada stock rose 50 times in value! The coronavirus halted that meteoric rise, sending the stock down 70%. Today, investors are betting that shares can reestablish the rapid growth of the past.

Should you join them and buy Air Canada stock? Before you do, consider what Warren Buffett has to say.

It's all about planes

Warren Buffett doesn't like planes. Well, he doesn't like *too many* planes. Let me explain.

For decades, Warren Buffett refused to invest in the airline space. He's made several memorable comments over the years. His most telling was in 1992, when he said "Investors have poured money into a bottomless pit, attracted by growth when they should have been repelled by it."

The growth he's talking about here is a growth in *supply*. Over time, air traffic climbed higher and higher, prompting more airlines to get involved. For most of its history, competition was cutthroat. You may remember regularly flying on planes that were half full.

Around 2014, industry oversupply became a thing of the past. Finally, competition was balanced. The number of planes in the air matched the number of people that wanted to fly. Seat utilization was high enough that sustainable profits started to emerge.

To the surprise of many, Buffett bought millions of shares of several airlines in 2014.

"It's true that the airlines had a bad 20th century. They're like the Chicago Cubs. And they got that bad century out of the way, I hope," Buffett [told](#) *CNBC* at the time. "The hope is they will keep orders in

reasonable relationship to potential demand.”

That last sentence is critical. Buffett finally predicted the end of oversupply. Unfortunately, the COVID-19 crisis ruined everything.

Will Buffett buy Air Canada stock?

From 2014 to 2019, airlines had their best years on record. Several carriers saw their stocks triple or quadruple in price. This year, the party ended.

You likely know that the coronavirus created an unprecedented collapse in air travel. To this day, Air Canada is flying at just 5% of its usual capacity. This is forcing multi-billion dollar losses.

This year, Air Canada may lose more than \$5 billion. That's bigger than its current market cap! The stock has paid the price, falling by 70% since March. Will Buffett jump in? Not so fast.

Buffett's biggest concern with airlines is oversupply. He's proven that he won't invest if there are too many planes versus demand. Right now, the industry faces its biggest oversupply nightmare in history.

One airline CEO thinks that demand will be “permanently” smaller. If true, we have enough planes for a 2019 world, even though that level of passenger traffic will never be reached again. This is a recipe for [disaster](#).

Air Canada is a well-run company, but the industry oversupply will be too difficult to overcome. Most airlines will continue to lose money through 2021 and beyond, even if a COVID-19 vaccine is discovered.

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