



Warren Buffett: Could Air Canada (TSX:AC) Stock Double in Price?

Description

At the end of 2019, Warren Buffett owned millions of shares of four different airlines. He was one of the industry's biggest proponents.

Of course, 2020 has been a terrible year for these stocks. **Air Canada** ([TSX:AC](#)) shares are roughly 50% below their former highs.

Does Buffett think Air Canada stock can double in price back to its former glory days?

This is how he thinks

Warren Buffett is famous for understanding what types of businesses can make attractive long-term profits. He bought many of his biggest positions decades ago.

How does he think about airlines? Past comments offer some clues.

In 2007, Buffett [stressed](#) that airline investors have historically been “attracted by growth when they should have been repelled by it.” This take reveals exactly what he thinks is important to monitor.

For decades, airline revenues have increased year after year. That's the growth that Buffett highlights in the comment above.

Unfortunately, this top-line growth didn't translate into profits for shareholders. That's because every time passenger demand grew, carriers rushed to bring more planes to market, adding new competition and lowering pricing. Sales grew fast, but profits proved ephemeral.

But then something amazing happened. After the financial crisis of 2008, airlines consolidated immensely. Cutthroat competition was no more. Finally, supply and demand were balanced, with sustainable profits emerging. This is when Buffett jumped in.

“It's true that the airlines had a bad 20th century,” he [explained](#). “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.”

Will Buffett buy Air Canada stock?

The trick to investing in airlines is to wait for industry consolidation. Today, four U.S. airlines control a majority of the market. In Canada, consolidation is *even more* rampant. Air Canada alone controls nearly half the domestic market.

Many believe this dynamic will push Buffett to invest. What are the odds of that?

In normal conditions, I would put Air Canada at the top of his potential buy list. However, the COVID-19 crisis shifts the reality.

“There are too many planes,” Buffett noted earlier this year, just after he sold all of his airline shares. For a man obsessed with supply and demand, the COVID-19 world looks like a nightmare scenario.

Just think about what’s happening. Passenger demand is still 90% lower than 2019 levels, but planes aren’t flexible assets. We have enough supply for a 2019 world, even though demand is 10 times lower. As you can expect, airlines like Air Canada are bleeding millions of dollars on a daily basis.

It’s important to know that most airline executives don’t believe demand will return to normal for at least another year or two. One CEO thinks demand will *never* fully recover. If Buffett thinks supply and demand drive airline stock prices, the future ahead looks gloomy.

Air Canada stock surged in November due to multiple positive vaccine announcements, but there’s still a long way to go. Don’t expect shares to double in price in 2021 or even 2022.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing

Date

2025/08/27

Date Created

2020/12/12

Author

rvanzo

default watermark

default watermark