



Air Canada (TSX:AC): Will Warren Buffett Buy This Surging Stock?

Description

Investors love **Air Canada** ([TSX:AC](#)). Shares are up 30% in just 45 days. Speculation is starting that Warren Buffett could get involved.

To be sure, airlines had a tough 2020. Many carriers have gone bankrupt since the year began, with global demand still down 90% due to COVID-19 fears.

But there's a light at the end of this tunnel, and Air Canada stock could be primed to soar.

Warren Buffett used to love airlines

After decades of staying away, Buffett announced his love for airline stocks in a 2017 [interview](#) with *CNBC*: "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," he remarked. "The hope is they will keep orders in reasonable relationship to potential demand."

The balance between orders and demand is what previously sent Air Canada stock skyrocketing. From 2012 to 2019, shares rose 50 times in value! The secret was old-fashioned supply and demand.

Let's rewind to the year 2006. It was business as usual for airlines. That meant a continuous new supply of planes to match rising revenues. Sales were growing, but profits remained ephemeral, because more plane supply depressed pricing. There was too much competition.

From 2006 to 2012, Air Canada stock *lost* 90% of its value. Then it went on that massive run. Buffett nailed the cause of the surge: balanced supply and demand. Airlines finally kept orders in check, rationalizing competition, and generating sustainable, long-term profits for the first time.

COVID-19 crushed Air Canada temporarily

When the coronavirus pandemic hit, Buffett sold all of his airline stocks. The balance between supply

and demand disappeared. We had enough planes for a 2019 world, but only enough demand to fill 5% of the seats.

“We took money out of the business basically even at a substantial loss,” Buffett [explained](#). “We will not fund a company ... where we think that it is going to chew up money in the future.”

This year turned out exactly how Buffett predicted. Air Canada is burning millions of dollars per day. Over the entire year, the business is set to lose somewhere between \$4 billion and \$5 billion. That’s nearly its entire market cap.

But sentiment is changing. Air traffic doubled last quarter, albeit from a small base. And with promising vaccine news, there’s finally a light at the end of the tunnel.

Bottom line

It’s been a challenging year. The airline industry was hit harder than ever before. One CEO described this period as the “dark ages of aviation.” Yet eventually, there’s always a time to buy.

Air Canada still has billions of dollars in liquidity left, and it’s increasingly likely that it will survive the current mess. When it does, it could face extremely limited competition. The company already controlled 50% of the domestic market, and post-coronavirus, that figure could be much higher.

We’re likely still a bit early, but perhaps Buffett will dip back into airlines next year. If he does, expect Air Canada to top his buy list. It excels when it comes to balancing supply and demand.

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

2025/08/26

Date Created

2020/12/20

Author

rvanzo

default watermark

default watermark