



Here's Why Warren Buffett Will Never Buy Air Canada (TSX:AC) Stock

Description

As we inch closer to the end of probably the most tumultuous year of our life, investors will be looking to start 2021 afresh. The wild swings of the stock markets in 2020 have provided a life lesson for people all around the world. It has shown us the fickle nature of global economies and the importance of having a nest egg to ride out the volatility.

Air Canada and peers were pummeled in 2020

One of the worst-hit sectors this year has been airlines. For example, shares of **Air Canada** ([TSX:AC](#)) fell from a record high of \$52.71 to a multi-year low of \$9.26 in just over a month, as governments announced lockdowns and shut their borders, bringing international and domestic travel to a grinding halt.

Air Canada was flying high prior to the pandemic, and the stock, in fact, rose by a staggering 3,500% in the last decade before COVID-19 disrupted our lives. The capital-intensive airline sector continues to burn millions of dollars each day, as businesses have transitioned towards remote work and people have delayed travel plans indefinitely.

In April 2020, the world's most-followed investor, Warren Buffett, confessed [he made a mistake](#) by investing in airline companies and exited this sector for good. Just before the financial crisis of 2008-09, Buffett [warned investors about the risks](#) of investing in airline companies that have historically produced little profits.

In an investor letter, the Oracle of Omaha emphasized that airline companies are one of the worst investments, as a durable competitive advantage has been elusive for multiple decades. While these companies have managed to rake in sales, top-line growth did not translate into sustainable earnings due to a rise in competition and high capital expenditures required to increase passenger capacity and increase traffic routes.

Despite these concerns, **Berkshire Hathaway** purchased stocks of the four-largest companies south of the border in the last decade. The four companies accounted for 80% of the market in the U.S. and

performed well over the years. But Buffett's worst fears came true in 2020, and it's unlikely Buffett will reinvest in these stocks enough if they manage to stage an impressive turnaround in 2021 and beyond.

What's next for Air Canada?

Shares of Air Canada have somewhat recovered in the last few months to currently trade at \$23. It has gained over 50% since November on the news of successful vaccine deployments by **Pfizer** and **Moderna**.

However, the rollout of these vaccines might take at least another year in developed markets. In highly populous regions of Asia and South America, it might take even longer. There is a good chance that business travel has changed permanently due to the transition towards remote work, and it will take another two years for tourism traffic to reach COVID-19 levels.

Air Canada seems like a solid contrarian bet for investors with a high-risk appetite. It has a leadership position in Canada and is almost too big to fail, which means the government will bail out the company in a worst-case scenario. But for investors nearing retirement, Air Canada is a risky addition to their portfolios.

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Date

2025/09/13

Date Created

2020/12/30

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