



Air Canada Stock Could Go Parabolic: Why Warren Buffett Could Be Completely Wrong About Airlines

Description

Warren Buffett has made some interesting moves in recent years, to say the least. The Oracle of Omaha has been criticized in recent years for changing his stance on certain companies and sectors. Buffett recently eliminated his exposure to airlines near the trough in this sector. He then took a gold stake (which no one saw coming) in Canadian gold miner **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD). He quickly reversed course, trimming this position around 40% one quarter later.

A lot seems to be going on here. There are some mixed messages, and investors are still trying to figure out what to make of these decisions. Buffett is looked to as one of the greatest investors of all time. Accordingly, his decisions impact those made by the common man.

I'm going to discuss the idea that Warren Buffett could have made a mistake selling his airline exposure when he did.

Buffett's bullish thesis on airlines still holds true

In 2017, Buffett famously stated he saw airlines becoming the "cattle cars" of the sky. In other words, he viewed airlines more like railroads or other capital-intensive businesses that are hard to replace. These companies operate in oligopolies or monopolies. Individual airlines have high levels of pricing power and there are extremely high barriers to entry in this sector. Additionally, airlines had become much better capital allocators and seemed to have cleaned up the messes created in the past.

A pandemic seems to have completely changed his thesis in this regard. I don't know that the underlying idea was wrong. Maybe Buffett was waiting for a more significant drop to get back into the airlines and saw some serious downside on the horizon. Of course, such a situation could still present itself. The longer the pandemic rages on and the more [cash that is burnt](#) by airlines, the greater the probability that severe pessimism seeps back into these stocks.

That said, I think it's an interesting idea to explore that airlines could be the cattle cars of the sky. I like

Buffett's original thesis and have tried hard to knock it down. Passenger revenues may be structurally hurt from this pandemic, particularly on the business travel end. That said, I think discretionary travel will rebound once the economy is back on track. Buffett is one of the greatest believers in the long-term success of the American economy. I think one needs to check if one believes in this idea as well as his previous view on airlines as essential businesses akin to railroads. If so, now could be the time to buy airlines at these prices.

Air Canada has room to continue higher, quickly

Air Canada ([TSX:AC](#)) is every Canadian's favourite way to play the airline sector. Canada's only publicly listed airline (unless you want to buy WestJet through **Onex**), Air Canada is the way to play this sector domestically.

If one believes that airlines will fully recover from this pandemic to pre-pandemic levels of profitability and passenger volume, Air Canada is a great way to play this sector. I've talked at length in the past of why I think Air Canada is one of the best North American airlines out there. Air Canada still has some of the best operating metrics among its peers, and I think is well poised to take advantage of increased volumes coming out of this pandemic.

If you're a long-term bull on the recovery following this pandemic, Air Canada could be a great value pick at these levels. Downside certainly exists, but putting a half position in a rebound play like this could be portfolio-changing. Only time will tell.

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