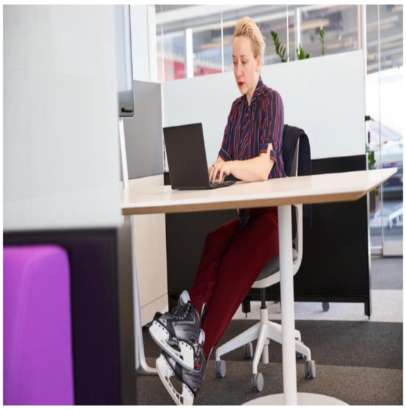

Should You Buy Air Canada (TSX:AC) or Cineplex (TSX:CGX) Stock?

Description

Pandemic lockdowns hammered airlines and movie theatres in recent months and contrarian investors are wondering if this might be the time to take a speculative position in these sectors.

Let's take a look at **Air Canada** (TSX:AC) and **Cineplex** (TSX:CGX) to see if one deserves to be on your buy list right now.

Air Canada

Air Canada trades at $17 per share at the time of writing. The stock was above $50 in February and hit a closing low near $12 in March.

The company recently said it will start booking the middle seats on its planes after keeping the spots open to provide better social distancing on flights.

Investors might have mixed feelings about the decision. On one side, it suggests demand is rebounding in the industry and that bodes well for the recovery. On the other hand, it is difficult to know if the move will deter people from taking flights.

Only time will tell.

Air Canada lost $1 billion in Q1 2020 — and the Q2 results will be worse. The company said in May that it was running at less than 10% of 2019 capacity and was burning through more than $20 million per day. As a result, Air Canada cut roughly 20,000 jobs in June, preparing the firm to be much smaller through the end of the year and into 2021.

Airline executives say they don't expect to be back to 2019 capacity for at least three years. Air Canada is targeting 25% by the end of 2020.

On the positive side, management did a good job of raising funds in the past two months. Air Canada has just under $10 billion in liquidity, so it should have enough cash to get through the worst of the pandemic. In the event that a vaccine becomes widely available early next year, the recovery in the airline sector could arrive faster than anticipated.

Cineplex

Cineplex trades at $8.20 per share at the time of writing. The stock surged from $24 in December to above $34 on an accepted takeover bid by **Cineworld**, a U.K.-based cinema operator. Cineworld pulled out of the deal in June, sending Cineplex shares plunging.

Cineplex has nearly 1,700 screens in 164 locations across Canada. The company closed operations on March 16.

In the just-released Q1 2020 results, Cineplex said it was in compliance with financial covenants as of March 31. In the June 29 report, Cineplex said it entered into an amendment agreement with its lenders.

The amendment provides immediate covenant suspension due to the pandemic. Cineplex would need to find $250 million in new financing to extend the waiver through Q2 and Q3.

As of June 29, Cineplex owed $664 million on the current credit facilities. The company's market capitalization is about $520 million at $8.20 per share.

The chain plans to start reopening its cinemas. Uncertainty remains on whether people will feel safe enough to go to the movies. Another concern is the availability of top films. Many film producers have delayed the release of films until later this year or 2021. Some decided to go directly to online releases, bypassing the theatres.

Is one a better bet?

Air Canada and Cineplex both carry high risks, even at current prices. I would search for other opportunities in the market.

If you decide to take a contrarian position in one of these stocks, Air Canada is probably the safer bet. The airline won't disappear and Air Canada should have adequate liquidity to ride out the pandemic as long as global governments continue to open up international travel.

Cineplex was already struggling before the takeover offer from Cineworld. Another bid could emerge in the coming months from one of the streaming giants looking to get a fire-sale deal on theatre locations. However, I wouldn't buy today on hopes of a big takeover premium.

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Date
2025/09/15
Date Created
2020/07/01
Author
aswalker