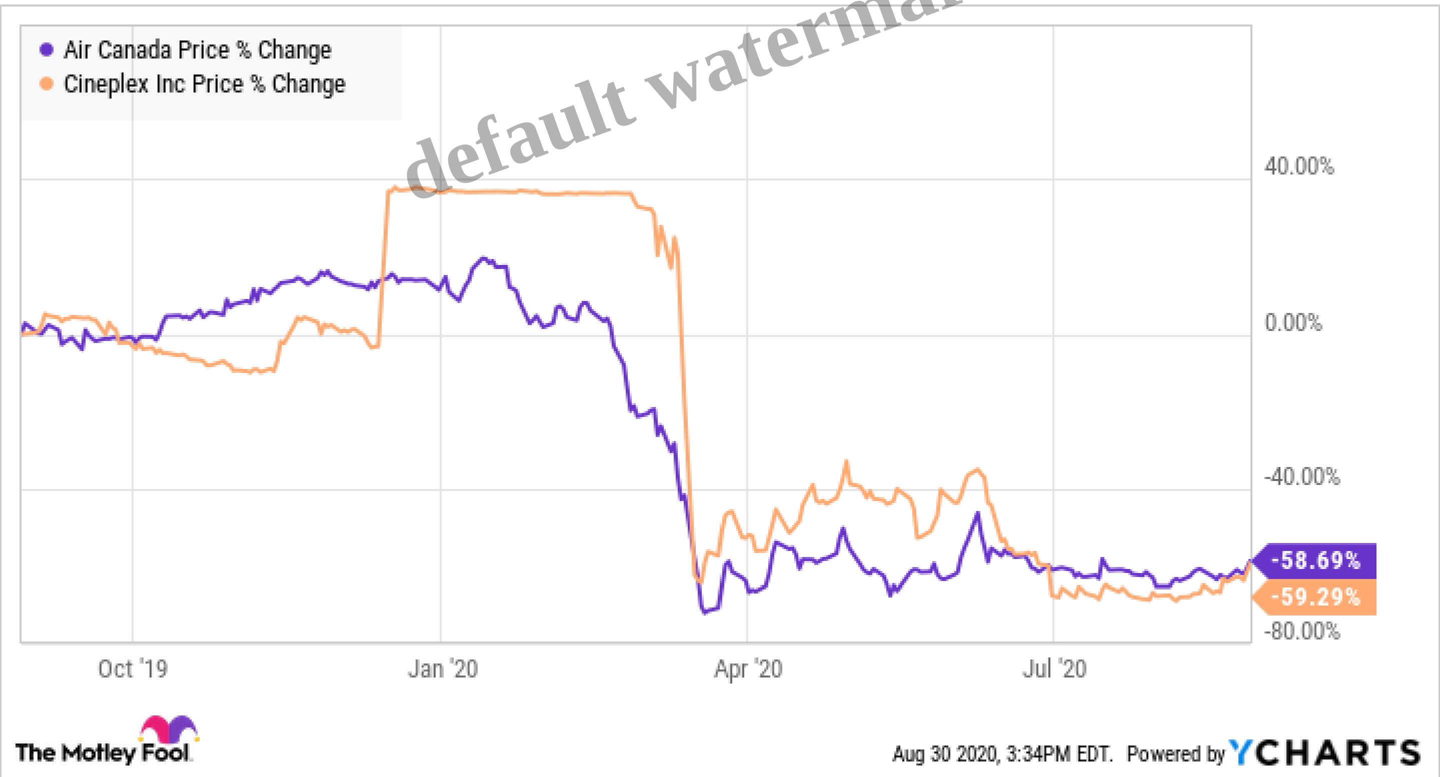
Better Buy: Air Canada (TSX:AC) or Cineplex (TSX:CGX) Stock?

Description

Air Canada (TSX:AC) and **Cineplex** (TSX:CGX) stocks have declined substantially by about 59% in the last year.



Data by YCharts.

Which has a better chance to survive? Which is riskier? What's their upside potential like? Which is a better buy for a turnaround investment over the next one to three years?

AC stock's survivability

There has been lower travel demand during this COVID-19 pandemic period. Government-imposed restrictions for social distancing didn't help either, although they were required measures to minimize the spread of the virus.

As a result, Air Canada's revenue dropped by 54% in the first half of the year (H1) to $4.2 billion compared to H1 2019. Despite substantially reducing operating expenses by almost 28%, it still posted big losses for the period.

Thankfully, Air Canada managed to increase its liquidity to $9.1 billion as of the end of Q2. Along with its cost-cutting measures, including permanently retiring 30% of its fleet, the company can survive more than 1.5 years based on its projected Q3 cash burn levels of about $1.5 billion.

As air travel demand increases, the cash burn will diminish and the deadline will extend.

Air Canada's current ratio, calculated by current assets divided current liabilities, was 117% at the end of Q2 versus 97% at the end of 2019. With a current ratio of greater than one, Air Canada has the ability to meet its near-term debt obligations.

Cineplex stock's survivability

Many of Cineplex's theatre and entertainment locations were closed for much of Q2. Consequently, Cineplex's revenue dropped by 62% in H1 to less than $305 million versus H1 2019. Like Air Canada, Cineplex couldn't help but post big losses for the period.

Since March 15, the company has experienced cash burn of $15-$20 million per month due to its venues being closed. Thankfully, by August 21, Cineplex's locations were all open. Therefore, its going-forward results should see marked improvements.

Cineplex's current ratio was dangerously low at 9% at the end of Q2 versus 43% at the end of 2019. With such a huge drop in its current ratio, Cineplex could have trouble meeting its debt obligations if it doesn't meet its traffic targets after reopening its venues.

Upside potential

Air Canada stock's recent quotation was $17.99 per share. Currently, analysts have an average 12-month price target of $21.80 on the stock for 21% near-term upside potential. Over the next three years, it can trade at the $40 level for 122% upside.

Cineplex stock trades at $10.10 per share at writing. Analysts have an average 12-month price target of $14 on the stock for more than 38% near-term upside potential. If it survives, over the next three years, it can trade at the $30 level to triple your money from current levels!

The Foolish takeaway

As the economy reopens, the business performance of Air Canada and Cineplex should improve immensely, leading to potential stock rallies. However, volatility will accompany these stocks.

Between the two companies, Air Canada has a greater chance of survival due to its stronger current ratio compared to what it was at the end of 2019. Cineplex is a particularly high-risk investment for the next few months, as the market watches the customer attendance numbers for Q3 like a hawk.

Therefore, Air Canada stock is a better buy right now.

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2. TSX:CGX (Cineplex Inc.)

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