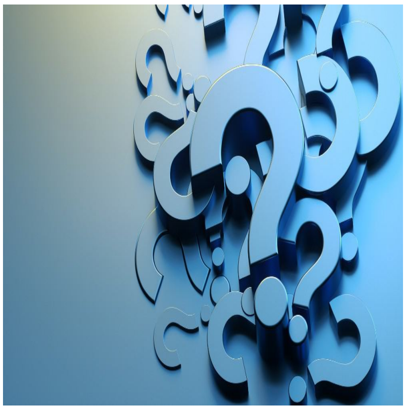

Should Cineplex (TSX:CGX) or Air Canada (TSX:AC) Stock Be on Your Buy List Today?

Description

Pandemic lockdowns hammered the share prices of **Cineplex** (TSX:CGX) and **Air Canada** (TSX:AC) in recent months. As the Canadian economy reopens, contrarian investors want to know which stock might be a good buy.

Cineplex stock

Cineplex started 2020 near $34 per share supported by the impending sale of the company to U.K.-based theatre operator **Cineworld**.

The arrival of the pandemic, however, quickly put Cineplex's future in doubt. Lockdowns shut all of the company's 165 theatres across the country in March. In June, Cineworld announced it was walking away from the $2.2 billion purchase of Cineplex.

Cineplex's share price plunged even more on the bad news and closed below $8 on a number of days this summer, but has started to rebound in the past two weeks. Cineplex stock currently trades for just under $10 per share.

What's the scoop?

Cineplex now has all of its theatres open across the country. Social distancing measures mean the seats can't be filled, but people are returning to the big-screen experience.

With vaccines likely on the way in the first half of 2021, there is a chance Cineplex could see operations return to normal by the end of next year. If this turns out to be the case, the stock appears oversold right now.

That said, risks still remain for Cineplex. The stock was already under pressure when Cineworld agreed to buy the business. Cineplex traded above $50 in 2017, but the rise of streaming services started to impact the business and Cineplex had slipped below the $25 mark late last year before the announcement of the Cineworld deal.

Cineplex needs big movie releases to attract audiences. If creators can get enough revenue through a direct-to-streaming model, Cineplex could be in trouble.

On the positive side, the big screen experience remains very popular. With the Cineworld deal up in the air, there's a chance that one of the major streaming players could decide to buy Cineplex. In the event a bidding war emerges, the stock could take off.

Contrarian investors might want to start nibbling on the stock below $10. It is possible the Q3 and Q4 attendance numbers could surprise to the upside.

Air Canada stock

Air Canada traded above $50 per share in February. The closure of international borders and the ongoing expansion of the pandemic across the globe makes timing the recovery in the airline sector difficult.

Industry executives suggest it could be four years before capacity returns to 2019 levels. Air Canada's year-over-year Q2 passenger numbers dropped more than 95%.

The stock hit a closing low near $12 in March and has bounced around quite a bit in the past five months. Air Canada's share price rallied above $23 in early June and fell back to $15 at the end of July. Nimble traders have made decent money on the moves, and that might be the way things go until COVID-19 vaccines are widely available.

Air Canada moved quickly to boost liquidity in the spring, giving the airline some breathing room as it rides out the downturn, but the company continues to burn through cash at a significant rate. Prolonged restrictions by the Canadian government on travel to Canada could extend the financial pain. In addition, the U.S. continues to see COVID-19 cases rise in many states. Travel to and from the United States is a major segment for Air Canada.

The company will survive, but how long a recovery will take is anyone's guess. Air Canada is already much smaller than it was at the start of the year, and while the stock appears cheap today, the current share price probably reflects the new reality.

Is one a better bet?

Cineplex and Air Canada both carry significant near-term risks. As such, I would keep any contrarian bet small at this point.

If you only buy one, Cineplex might offer better upside torque over the next 6-12 months. A new takeover bid wouldn't be a surprise and die-hard movie fans could flock back to theatres despite the ongoing presence of the coronavirus.

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