Got $500 to Invest? These 2 Stocks Are Good Recovery Bets

Description

The equity indices have recovered sharply from the March-April lows, thanks to the staggering amount of government spending across the world. However, a few stocks continue to trade at a massive discount from their pre-pandemic levels and are attractive recovery bets.

Shares of **Cineplex** (TSX:CGX) and **Air Canada** (TSX:AC) have taken a significant amount of hit because of the coronavirus and are down about 72% and 64%, respectively on a year to date basis.

However, with high expectations of a medical breakthrough for COVID-19 treatment and the reopening of the economy, it's time to accumulate these shares. So if you got $500 to invest, buying shares of these beaten-down companies could generate stellar gains in the long term.

Cineplex

While it is uncertain when the vaccine will come out, looking at the steep decline in Cineplex stock, it's time to buy some of its shares at these levels. The pandemic-driven lockdown led to the temporary closure of its theatres and location-based entertainment (LBE) venues, thus dragging its revenues and profitability.

In the most recent quarter, Cineplex reported a 95% drop in its top line. Besides, the company said that the net cash burn was $53.9 million during the quarter, implying an average of $18.0 million monthly.

However, as the lockdown measures have eased, Cineplex's business is likely to show gradual recovery. Though the traffic and box office revenues per patron are likely to stay low, its focus on revenues from the expansion of store offerings and food home delivery from the theatres and LBE venues through Uber Eats and Skip the Dishes brings some respite. Also, Cineplex's cost-savings initiatives should further provide a cushion.

Cineplex's stock could recover as the consumer demand returns to normalcy. Moreover, its financial flexibility is likely to help the company in navigating the current crisis. However, investors should note that COVID-19 could continue to impact Cineplex's operations in the foreseeable future due to the social distancing measures and reduction in theatrical releases, implying that recovery in its stock could take long.

Air Canada

Similar to Cineplex, the virus dragged Air Canada stock down. Travel restrictions, deep capacity reductions, high net cash burn, and bulging debt eroded a significant portion of value from Air Canada stock.

However, Air Canada is a market leader in the Canadian airspace and has strong liquidity, indicating that it is in better shape than most of its peers and has a higher chance of recovery. Further, the resumption of domestic fights should lead to a gradual improvement in its operations in the coming quarters.

While Air Canada's lower passenger volumes are demoralizing, it's likely to improve sequentially. While its top line is expected to improve gradually, its planned reduction of operating expenses should ease some pressure on the bottom line. Alongside, Air Canada has increased its capacity for all-cargo flights, which is encouraging and should support its financials in the near term.

Bottom line

Cineplex and Air Canada stock have been beaten down a lot during the pandemic-led market crash and are on a slower recovery path. However, investors should buy shares of these companies at the current levels as they are very cheap and could fetch hefty gains in the long run.

CATEGORY

1. Coronavirus

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1. TSX:AC (Air Canada)
2. TSX:CGX (Cineplex Inc.)

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