# Why Air Canada (TSX:AC) Stock Is a Better Recovery Play Than Cineplex (TSX:CGX)

### Description

We might see an outbreak of bankruptcies next year, driven by the prolonged pandemic. Things are already getting uglier amid the second wave of the coronavirus.



## Air Canada stock versus Cineplex

Consumer discretionary sectors like airlines and entertainment are some of the worst-hit areas. The theatre stock **Cineplex** (TSX:CGX) recently broke all support levels and is currently trading close to its all-time lows of $5. At the same time, the country's biggest airline company, **Air Canada** (TSX:AC) stock, is trading close to its near-term support levels of $15.

While Canada has seen a stable economic recovery in the last few months, it has largely been uneven. Travel restrictions have significantly hampered airline companies, while theatres are operating with capacity constraints.

Cineplex reported a massive 95% decline in its top line amid the theatre closures during the second quarter. It reported a $99 million loss in the same quarter. Along with recurring losses, Cineplex investors must be concerned with the surrounding uncertainties.

The return of movie-goers is of utmost importance for Cineplex to stop it bleeding, which seems unlikely in the short term. Its debt has also increased substantially in the last few years. To add to the woes, liquidity is another major issue for Cineplex, and weaker demand for longer might force the company to go bankrupt.

## Air Canada's stronger liquidity position

However, things are different at Air Canada. Air Canada has also been operating at trivial capacities for the last six months. But importantly, the airline is in a position to survive longer in this dreadfulscenario. It has a strong liquidity position, which can take care of its cash burn.

Air Canada reported a revenue drop as steep as 90% in the second quarter. It has lost $2.8 billion so far this year. However, the company has seen crises before and has emerged strongly from each one. Its operational efficiency and robust financial position will likely fuel a great recovery. A controlling market share should also play an important role in Air Canada's upturn.

Air Canada and Cineplex are expected to report their third-quarter earnings on November 10-11. Besides the impact on their bottom lines, how their managements see things for next year will matter more.

A sooner-than-expected vaccine launch could be a game-changer for both Cineplex and Air Canada. At the same time, government aid could notably improve their prospects.

## The Foolish takeaway



After their recent weakness, these stocks look discounted. However, that could be a value trap, and cautious investors might choose to stay away, given the underlying uncertainties. Novice investors might follow these risky plays given their attractive gain prospects based on price targets. However, consensus price targets are least useful when there are so many improbabilities.

I am optimistic about Air Canada, mainly because of the above-mentioned reasons. Canada might ease its air travel restrictions in late Q4, which will start aviation's recovery. As Air Canada starts operating with relatively higher capacity, it will lower the cash burn and will boost the stock.

**CATEGORY**

1. Coronavirus
2. Investing
3. Stocks for Beginners

**TICKERS GLOBAL**

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

**PARTNER-FEEDS**

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

**Category**

1. Coronavirus
2. Investing
3. Stocks for Beginners

**Date**
2025/08/30
**Date Created**
2020/10/07
**Author**
vinitkularni20