Air Canada (TSX:AC) Stock and Cineplex (TSX:CGX) Stock Rallied 30% Yesterday: How Much More Upside?

Description

The stock market hates uncertainty. Once there was a clear result for the U.S. presidential election with Joe Biden winning, the market rose. Of course, the Biden administration is also in full support of tackling the pandemic problem in the United States. The problem being solved in the U.S. would be a big win for the global economy, as the country still leads in gross domestic product (GDP).

Another reason for the market optimism was that yesterday **Pfizer** and **BioNTech** released an early snapshot of the Phase 3 trials for their coronavirus vaccine.

In the initial result, 94 confirmed COVID-19 cases were tested. It suggested the vaccine was 90% effective at preventing the virus. So, the data is looking very good so far. The study will continue until it reaches 164 confirmed cases — a number that the U.S. Food and Drug Administration (FDA) agreed is enough to tell how well the vaccine works. The agency also requires that any vaccine must be at least 50% effective.

In light of this news, some stocks clearly rallied more than others. Particularly, **Air Canada** (TSX:AC) stock and **Cineplex** (TSX:CGX) stock rose — incredibly — by 28% and 31%, respectively, yesterday.

Air Canada stock versus Cineplex: What's the upside potential?

If the pandemic were to disappear tomorrow, the operations of Air Canada and Cineplex would be able to normalize. So, it's understandable that with the hopes of an effective vaccine that both rallied so hard.

What is the normal fair valuation of the two stocks? Air Canada stock can trade in the high $40s over the next few years to double an investment from the current $20-per-share level.

The normal fair valuation of Cineplex is more uncertain because the stock was losing altitude even prior to the pandemic until it rallied due to another company wanting to acquire it in late 2019.

Of course, the acquisition was called off. In any case, if Cineplex survives through this pandemic and turns around, my educated guess is that it should recover to at least the $20 level over the next few years to nearly triple an investment from the current $7-per-share level.

AC stock and Cineplex stock: One is riskier

For Air Canada and Cineplex, it’s about surviving through the pandemic. Right now, Air Canada is better positioned to survive. It was able to boost its current ratio to 1.2 times versus 0.9 times a year ago. It’s an opposite story for Cineplex, whose current ratio is 0.1 times compared to 0.4 times a year ago.

Investopedia explains that “the current ratio is a liquidity ratio that measures a company’s ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.”

The Foolish takeaway

One thing is for sure about Air Canada stock and Cineplex stock — they are risky! Between the two though, AC stock is a safer bet for the next year. Therefore, if you decide to take a position in them, do not bet the farm.

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kayng