



COVID-19: 2 Undervalued Pandemic Recovery Plays for 2021 and Beyond

Description

The COVID-19 pandemic is about to become worse before it gets any better. With two effective vaccines that should be ready to go within months, though, there is a new [light of hope](#) for the battered recovery plays that have what it takes to survive another round in the ring with Mr. Market.

As the subtle rotation out of the COVID-hit names back into the pandemic-resilient plays remains the theme heading into year's end, investors who've yet to balance their "barbell" portfolios with risk-on names should strongly consider scooping up some hard-hit COVID-19 recovery plays should bleak short-term headwinds stand to overpower the more now far optimistic medium- and long-term trajectory.

With coronavirus cases surging uncontrollably across various localities, the next few months are going to feel ridiculously long and painful. With lockdowns on the horizon, 2021 seems a long way off. Still, for those willing to put up with the roller-coaster ride of volatility, there's much to gain by going against the grain with undervalued stocks that will continue to feel the full force of the pandemic's impact.

Without further ado, let's have a look at two undervalued pandemic recovery plays with a highly favourable risk/reward for investors willing to take on another few months of pain for a shot at outsized gains through the end of 2021. Eventually, we'll bend the curve, but in the meantime, the tremendous rally in COVID-19 recovery plays is likely to run out of steam.

As it does, any imminent weakness in such plays may represent a "last call" to get bargain-basement valuations in the stocks of firms that have the most to gain in a return to post-pandemic normalcy.

Air Canada ([TSX:AC](#)) and **Cineplex** ([TSX:CGX](#)) are two [high-upside COVID-19 recovery plays](#) that could have a multitude of upside in the year ahead. Of course, en route to normalcy, there will be some pretty steep bumps in the road.

Cineplex is the riskier of the two plays and is more akin to an option than your regular stock, with extremely high rewards for those who choose to bear the potential risk of being left with a big, fat zero in a bear-case scenario.

Air Canada could take off in 2021

Air Canada was an all-or-nothing bet that used to have a risk/reward similar to that of an option play. Essentially, with the airline, you would have been placing a bet on the timely advent of a vaccine. With two impressive vaccine breakthroughs and the advent of rapid coronavirus test kits now in the cards, Air Canada is now less of a speculation and more of a sound long-term value investment.

With the stock still miles away from its high, I view the name as having option-like upside with a minimal chance of falling to zero, given recent developments that could help conquer the COVID-19 pandemic next year. Moreover, Air Canada's management has done a remarkable job of battenning down the hatches, with a decent liquidity position, capacity cuts, and reduced cash burn rates, all of which improve the odds of Air Canada's surviving this unprecedented crisis.

The stock bounced to \$21 on good vaccine news. Given surging COVID-19 cases that could dominate the headlines until a vaccine is ready to be administered, Air Canada is likely to suffer a retracement. If shares fall back to the teens, I'd get ready to punch a ticket into the COVID recovery play that looks absurdly undervalued given its improved survival prospects and the potential for pronounced profitability on the other side of this pandemic.

Cineplex: A riskier COVID-19 recovery play

Cineplex nearly doubled since my recommendation to buy the stock while it was trading at \$5 and change. The stock has since pulled back modestly and is at risk of falling farther over the near-term, as hope and optimism turn back into fear amid the second wave that's going to weigh heavily on Cineplex's coming quarters.

The vaccine news is promising. However, Cineplex's survival isn't guaranteed, given its balance sheet still isn't that solid. As such, I view Cineplex as having a more option-like risk/reward than the likes of Air Canada. Regardless, younger investors should look to nibble the name if they think the pandemic will end in 2021.

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Date

2025/08/01

Date Created

2020/11/23

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