2 COVID-19 Recovery Plays That Look Unstoppable: Should You Buy Them?

Description

Various COVID-19 recovery plays have been surging of late, correcting upwards following the excessive (and unwarranted) damage they took when the stock market fell off a cliff back in February and March.

Food court kingpin **MTY Food Group** (TSX:MTY) is a name I've been pounding the table on is up nearly 240% from its lows of March. And **Cineplex** (TSX:CGX), a battered movie theatre darling, has been a falling knife that I encouraged investors to reach for back in the depths of October when the stock was trading at a mere $5 (shares are now worth more than $9).

Each reopening play looks unstoppable now that a handful of safe and effective COVID-19 vaccines are ready to end the pandemic. But only one of the two names, I believe, is still a buy after bounces off their respective bottoms, given the risks that still exist en route to post-pandemic normalcy.

MTY Food Group

MTY is the king of the food court, with such quick-serve restaurants as Taco Time (my favourite), Thaï Express, Vanelli's, Extreme Pita, among many other names you're likely to come across at your favourite shopping mall. When restaurants malls were shuttered amid the first wave of lockdowns, MTY imploded on itself (losing nearly 75% from peak to trough). It seemed as though investors were sure that the malls would be deserted for the long haul, and that the vulnerable firm was at risk of going bankrupt due to the coronavirus crisis.

The firm's liquidity certainly wasn't the best in the world. And it still isn't amid this worsening second wave. The only difference is that normalcy is within reach and the odds of food court staples going under is now slim to none. While the stock still represents a great reopening play, I think the recent run is overdone. The stock has nearly recovered all of the ground lost in the 2020 market crash, and while shares aren't cheap at 2.4 times book and 2.6 times sales, I find there to be limited upside now after such an explosive run.

MTY isn't a steal anymore. If anything, it could be overvalued, given we're not out of the woods yet with this pandemic.

Cineplex

Cineplex looks to me like the better buy here, even though it's going to be tough for the firm to get bums in seats in the first half of next year, given the potential for a third wave in Canada. With a light at the end of this very dark tunnel, though, I think creditors will be more willing to extend Cineplex greater access to credit, as it looks to navigate through the latter stages of the COVID-19 typhoon.

Looking beyond 2021, Cineplex could be in for profound upside, as sales could bounce thanks in part to a potential post-pandemic discretionary spending boom and a longing for social interaction after many months of quarantine. While Cineplex doesn't have the best balance sheet in the world, I don't see the company as going under from this crisis.

Sure, Cineplex has suffered from considerable business erosion, and it was in a world of pain even before the pandemic struck. But the stock is just too cheap here if you're in the belief that the pandemic will conclude at some point in the latter half of 2021. The stock trades at 2.3 times book value and is a compelling option for hungry investors with the risk tolerance.

Should CGX stock pull back towards $5, I'd pounce on the name, all things being the same.

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2. TSX:MTY (MTY Food Group)

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Author
joefrenette