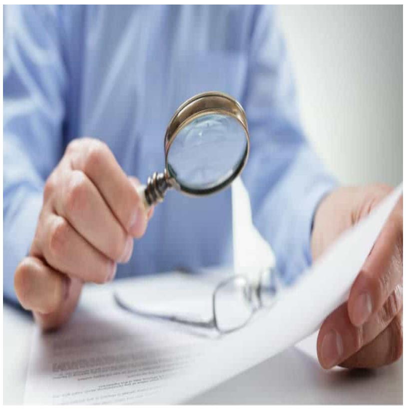

TSX Stocks: 2021 Will Shape the Fate of These 2 Canadian Titans

Description

We will likely see the pandemic waning in the second half of 2021. But not all companies can survive till then. Some are already on the verge of a collapse, while some are readying for a dazzling recovery this year. Here are two TSX stocks that face the moment of truth in 2021.

Air Canada

Driven by the vaccine's favourable developments, **Air Canada** (TSX:AC) stock is comfortably trading at around $22-$23 at the moment. Investors who got in at $15 or so must be relieved with its recent recovery.

I think the stock is nicely balanced with the underlying uncertainties and the impending growth opportunities. We will most likely see Air Canada operating with higher capacity this year compared to 2020.

A higher number of flyers amid easing travel restrictions, though a slow start at the beginning, combined with higher cargo should see notable top-line growth in 2021. Moreover, its cost-cutting measures have already lowered its cash burn, which will positively impact cash flows in 2021.

However, challenges stand tall, too. Air Canada has dug a deep debt well amid the pandemic. Higher debt-servicing costs could hamper its profitability in the medium to long term. New equity issuance will dilute current shareholders' ownership, giving them a lower portion of the company's profits than earlier. Additionally, Air Canada stock looks expensive from the price-to-book value measure.

While Air Canada's scale and a controlling market share suggest a massive recovery in the post-pandemic world, doubts over its profitability and premium valuation could deter the stock's movement in the future.

Cineplex

I think investors should be more cautious with **Cineplex** (TSX:CGX) stock. Though shares have almost doubled since October, lingering uncertainties could trigger a big pullback.

Cineplex stock was a massive wealth destroyer in 2020. Despite the recent rally, it is still trading 73% lower than its pre-pandemic levels. The main concern Cineplex investors are facing is its weak balance sheet. It might not make it till vaccination reach a large population and things return to normal. The Canadian multiplex operator is fighting to pay back its dues due to a scarcity of cash.

It was a breather for Cineplex when it obtained an interim relief from creditors that allowed pushing back $460 million repayments to Q2 2021. Amid near-zero revenues, it has decided to raise cash by selling its head office building in Toronto. We might see more of such asset sales from Cineplex to raise cash and survive longer.

However, a blasting recovery in Cineplex stock also can’t be ruled out completely. Higher savings rate during the pandemic and revenge shopping trends could result in greater discretionary spending and pent-up demand. A gradual waning of the new set of lockdowns might push the stock higher in the short term.

Cineplex stock looks immensely risky to me. It does not look too appealing from the valuation perspective either. However, if you have a large risk appetite, you can enter the stock and expect movement on both sides.

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vinitkularni20