



## Air Canada and Cineplex Stock Just Dropped: What Should You Do?

### Description

Shares of **Air Canada** ([TSX:AC](#)) and **Cineplex** ([TSX:CGX](#)) were on the retreat this week, with AC and CGX stocks plunging 11% and 6%, respectively, from their weekly highs, as growth and frothy reopening plays took a chance to [cool off](#). While I have no idea whether the pain is a near-term buying opportunity or the start just the start of something more severe, I think contrarians looking to get into either name should [carefully evaluate the risk/reward](#) at this most critical of market crossroads.

### Meet the TSX's top reopening stocks!

Undoubtedly, both names are some of the TSX's most popular economic reopening plays. But just because the COVID-19 pandemic's end is in sight does not mean either company will be in for an abrupt return to their 2019 highs.

### Air Canada

Air Canada was flying high before the COVID-19 pandemic sent the airline industry into a fight for survival. Various U.S. airline stocks have already fully recovered from the 2020 stock market crash, yet Air Canada remains off around 46% from its early 2020 heights. Could AC stock be positioned to follow in the footsteps of its U.S. peers with a few months' lag? Or are there fundamental differences that will keep Air Canada stock depressed, as other airlines soar?

Air Canada is a different flavour than its peers south of the border. First, it's a Canadian airline. In Canada, the vaccine rollout hasn't gone as quickly or as smoothly as in the States. That means restrictions and all the sort could linger on for a few months longer than U.S. airlines that are already seeing some relief.

Second, Air Canada is a huge chunk of pre-pandemic revenues derived from international flights. I think international restrictions could act as a serious overhang for AC stock for many quarters after this pandemic ends. With more transmissible COVID-19 variants of concern popping up from left, right, and centre, it's clear that the federal government must remain vigilant to avoid future waves of COVID-19.

Indeed, international travel will be far slower to recover than domestic travel, which warrants a discount on Air Canada shares versus its more domestically focused peers.

Third, Air Canada is one of few major national carriers. And with that, I suspect the federal government is willing to provide ample relief or bailouts should the waters get rougher between now the end of the pandemic. Air Canada has a decent balance sheet and a critical lifeline that leads me to believe that Air Canada is too big and “vital” to fail, even if worse comes to worst.

## Cineplex

Cineplex is a movie theatre kingpin that cannot catch a break! There are too many headwinds to count, and the stock and its balance sheet look toxic. It's hard to imagine a world where we'll crowd into movie theatres again, especially given the rise of “premier access” from big-league streamers like **Walt Disney's** Disney+ platform.

Despite the pressures, I don't think Cineplex or the movie theatre concept will die at the hands of COVID-19. Rather, I think the future of cinema is both in theatre and at home. I believe consumers will have the option to catch a flick at the local Cineplex or order premier access on their favourite video streamer. With pent-up demand to go out and catch a flick in the company of friends, I think Cineplex will bounce back quickly after we reach herd immunity. And I think streamers and cinemas will reach an equilibrium where they can both prosper.

For now, I wouldn't bet against Cineplex. Like Air Canada, it's too “vital” to fail. I think Cineplex will be a compelling takeover target, but I wouldn't recommend you play acquisition roulette on the name, as the stock is still up big from its lows.

## Better buy: Cineplex or Air Canada stock?

Both stocks are reliant on a timely end of this pandemic. And I'm still unsure as to what the post-pandemic world has in store for the most at-risk plays that'll be first to shutter should lockdowns return. If I had to pick one, I'd go with Air Canada stock, because I do not see the government letting it collapse.

### CATEGORY

1. Coronavirus
2. Investing

### TICKERS GLOBAL

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

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