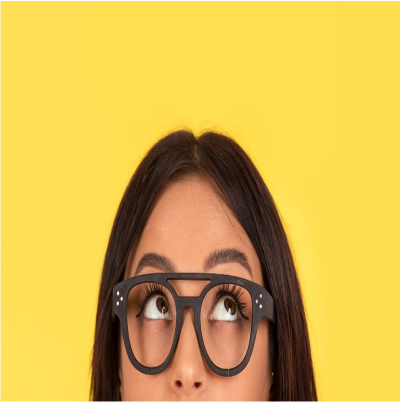

Air Canada (TSX:AC) or Cineplex (TSX:CGX): Here's the Stock to Buy Now

Description

The COVID-19 pandemic disrupted the majority of businesses across sectors. While some sectors recovered their lost ground, sectors like airlines and theatre and entertainment industries took a massive hit and continue to remain negatively impacted by the pandemic.

For instance, **Air Canada** (TSX:AC) and **Cineplex** (TSX:CGX) lost a significant amount of value. Further, the businesses of both these companies continue to remain impacted by the pandemic, reflecting lower demand, reduced operations, a sharp decline in capacity, and higher net cash burn.

However, the acceleration in the pace of vaccination and easing lockdown measures have reignited hopes of a stellar recovery in these stocks as their operations return to normalcy.

While both these stocks are among the top recovery bets and could deliver stellar returns in the long run, let's narrow down to the one with better growth prospects.

Quarterly results

Both Air Canada and Cineplex reported sluggish results for the reasons mentioned above. Mandatory lockdowns and a sharp decline in demand weighed heavily on the financial performance.

Notably, Air Canada reported a decline of 80% in its Q1 operating revenues. Further, Air Canada's available seat miles (or ASM), a measure of capacity, dropped 82.1%. It posted an operating loss of over $1 billion compared to $433 million in the year-ago period.

Similarly, Cineplex's top line dropped by 85.4%. Meanwhile, its theatre attendance fell over 96%.

While both these companies are struggling, Air Canada's net cash burn shows an improvement on a quarter-over-quarter basis. On the contrary, Cineplex's net cash burn has risen sequentially in the past two quarters in a row.

What’s ahead?

Barring near-term headwinds, both of these companies are likely to recoup their losses and return to profitability as demand resumes back to normal. However, the recovery in Cineplex could take a little more time as I expect a portion of the consumer spending could continue to go toward streaming platforms and in-house entertainment. Nevertheless, I am hopeful that a return to normalcy would significantly boost its prospects.

On the other hand, I expect Air Canada could recover its losses faster than Cineplex as the demand for air travel demand is likely to surge, thanks to the ongoing vaccination. Further, Air Canada’s focus on adding diverse revenue sources and lower cost base bode well for future growth.

As mentioned earlier, Air Canada’s net cash burn is improving, and the company has sufficient liquidity to navigate through the pandemic. I expect to see a solid quarter-on-quarter improvement in its net cash burn rate. Meanwhile, the airline company could continue to benefit from the ongoing momentum in its cargo business. It has operated more than 7,500 cargo flights since March 2020 and will continue to use its wide-body cargo aircraft in 2021, which is likely to deliver incremental revenues. Further, increased demand from the e-commerce segment will likely boost its cargo revenues.

Notably, both Air Canada and Cineplex stock are trading at a considerable discount compared to the pre-pandemic levels and are an excellent bet for long-term investors at the current levels. However, if I could buy only one stock, I would choose Air Canada.

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