Air Canada and Cineplex: How COVID-19 Changed the Fate of These Top TSX Stocks

Description

Every time we think we are getting closer to the end of the pandemic, a fresh wave hits and shatters our re-opening hopes. Imagine the potential scenarios for **Air Canada** (TSX:AC) and **Cineplex** (TSX:CGX), which have been operating at near-zero capacities since last March. After charring billions of dollars in losses since last year, a thorny road filled with uncertainties lies ahead for both of them.

Cineplex

Cineplex has lost almost 65% of its value during the pandemic. The theatre chain company announced that it re-opened all of its theatres last month. While the second-quarter results indeed painted a rosy picture, the Delta variant has weighed on its stock. CGX stock was quick to exhibit weakness, dropping 25% since last month.

In Q2 2021, the company reported total revenues of $65 million, representing a 195% growth compared to Q2 2020. Even if that looks encouraging, its 2019 annual revenues were $1.6 billion and it could take a while for Cineplex to reach those levels. Vaccinations will undoubtedly drive the loosening of restrictions. However, how fast that will increase the footfall at the screens will be interesting to see.

In addition, OTT platforms have added to Cineplex's woes and might delay recovery in the post-pandemic environment. So, I think sustained profitability at Cineplex could be a distant dream, at least for now.

Air Canada

The flag carrier has lost more than half of its value because of the COVID-19 since last year. However, I am more optimistic about Air Canada for several reasons. First, it has a strong balance sheet that could fund its growth plan post-pandemic. Its liquidity position further strengthened after a larger-than-expected stimulus package from the Canadian government.

Air Canada's top-line could remarkably recover in the next few quarters, driven by pent-up leisure travel demand. Business travel will likely see muted growth, but leisure travel could offset that slump to some extent. Coupled with higher demand, Air Canada's leading market share and operating efficiency should fuel a faster recovery in the next few quarters.

Canada's biggest airline might increase its operating capacity gradually amid air travel demand recovery. As seen in the first half of 2021, decent revenue growth could lower its cash burn and will likely drive Air Canada toward profitability.

In addition, U.S. airlines were quite confident of their recovery before the Delta version spoilt the rally. Higher demand and rapid vaccinations could drive relatively faster recovery in the next few months. As a result, Air Canada could soon follow its south of the border peers and end the year-long underperformance.

Bottom-line

I think AC stock is a better recovery play because of its favourable risk-reward proposition compared to Cineplex. CGX stock looks like a speculative play, and its financials might remain tight for the foreseeable future. On the other hand, AC stock looks attractively valued and well placed to benefit from the pent-up demand.

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vinitkularni20