Uncertain Recovery: Air Canada (TSX:AC) and Cineplex (TSX:CGX) Are in a Bind

Description

Many businesses are returning to pre-pandemic financial shape except for a select few. **Air Canada** (TSX:AC) has yet to see passenger travel demand swell this year. Meanwhile, the total revenue of movie theatre operator **Cineplex** (TSX:CGX) in the first half of 2021 is 65% less year-over-over.

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Both Canadian icons remain in a bind in that recovery from the pandemic's fallout could take longer. Between the two, the entertainment stock has done better on the stock market. Still, both stocks are risky bets as the raging COVID variants could stun growth. It would be best to steer clear of them while recovery hangs in the balance.

A string of quarterly losses

Air Canada didn't have problems with profitability until the coronavirus breakout. Before the pandemic, the airline company boasts 27 consecutive quarters of profits. However, since Q1 2020, it's seen a string of quarterly losses. While operating revenue in Q2 2021 increased 59% versus Q2 2020, management expects an average daily net cash burn of $3 million to $5 million in Q3 2021.

Compared to the early months of the health crisis, bookings have increased, although the different government-imposed travel restrictions add to the uncertainty. International Air Transport Association (IATA) confirms that air travel demand increased in July 2021 but is still far below pre-pandemic levels. Border control measures are the problem today, says IATA.

IATA believes governments must restore freedom to travel for international travel to recovery. The association adds vaccinated travellers should not face restrictions, at the minimum. Willie Walsh, IATA's Director-General, said, "That would go a long way to reconnecting the world and reviving the travel and tourism sectors."

Regarding the stock performance, Air Canada is down 1% year to date. However, the current share price of $22.47 is 25% higher than a year ago. Based on analysts' forecasts, the return potential of the airline stock in the next 12 months is 33%.

Unprecedented disruption

Cineplex is surprisingly gaining on the TSX. Thus far, in 2021, the gain is 44.6%. Its stock price of $13.40 is also 62% higher than a year ago. Market analysts see not more than 16.65% upside in the next 12 months. CGX used to be a dividend titan but had to stop dividend payments due to the pandemic.

In Q2 2021, net loss increased 4.8% versus Q2 2020, although box office revenue per patron grew 142%. Cineplex's entire circuit of theatres reopened on July 17, 2021. Some location-based entertainment (LBE) venues reopened but under mandated operating restrictions. Due to restrictions on capacity, Cineplex won't be able to resume operations fully in Q3 2021 and for the foreseeable future.

The pandemic's impact on the operations of the $848.79 million entertainment and media company is unprecedented. In the last 15 months, Cineplex's total net cash burn was $330,374 ($22,025 average per month). The best management can do now is to monitor the situation and adapt its business strategies depending on how the COVID-19 pandemic and its variants evolve.

Same predicament

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Air Canada and Cineplex are in the same predicament. The multitude of air passengers and moviegoers aren't around like they used to in the pre-pandemic environment. While both are potential growth stocks, it seems there are no catalysts that would drive growth anytime soon.

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