2 TSX Stocks Ready to Explode After COVID

Description

The market's impressive snapback rally in the last 18 months has meant that several stocks are trading near record highs, despite the ongoing pandemic and the resulting economic fallout at the global level.

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The market recovery was initially driven by high-flying technology stocks in 2020, and this year it was fueled by companies in the energy sector. But there are several stocks that have not recovered from losses. Companies in sectors that include theatres, airlines, and commercial REITs saw their share prices drop in early 2020 and are still trading well below record highs.

But if the dreaded virus is brought under control and the pandemic ends, TSX stocks such as **Air Canada** (TSX:AC) and **Cineplex** (TSX:CGX) should be well placed to derive outsized gains to investors.

Air Canada is down 54% from record highs

An expanding global economy meant that Air Canada was one of the top-performing TSX stocks in the decade prior to COVID-19. Between 2011 and 2020, Air Canada shares returned a staggering 3,500% to investors. It's now trading 54% below all-time highs, as the airline sector continues to grapple with high fixed costs, rising fuel prices, significantly lower passenger traffic, especially for international routes, and high debt levels.

A report from the International Air Transport Association (IATA) forecasts the global airline industry to report a loss of $201 billion between 2020 and 2022. Further, net industry losses might narrow from $51.8 billion in 2021 to $11.6 billion next year. In 2020, net loss estimates stood at $137.7 billion.

Passenger numbers in 2021 might touch 2.3 billion and rise to 3.4 billion in 2022. Comparatively, in 2019, passenger numbers were far higher at 4.5 billion.

Bay Street expects Air Canada sales to fall from $5.83 million in 2020 to $5.79 billion in 2021. But it might rise to $14.38 billion in 2022, which is still lower than record sales of $19.13 billion witnessed in 2019.

Air Canada ended the June quarter with a cash balance of $5.1 billion and $12.75 billion in debt. While it has sufficient liquidity to navigate near-term headwinds, the Canadian airline heavyweight will have to improve profit margins going forward to ensure it does not have to raise additional capital to support its cash burn.

Cineplex stock is down 75% from all-time highs

Shares of Cineplex are currently trading at $13.66, which is 75% lower compared to its all-time highs. Investors might remain wary of investing in a theatre chain due to the rising demand for streaming services as well as the COVID-19 pandemic.

Similar to Air Canada, Cineplex too carries significant debt on its books. It ended the June quarter with just $29 million in cash and $1.92 billion in debt. But the low valuation of Cineplex stock and improving financials make it an enticing bet for contrarian investors.

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Cineplex revenue fell from $1.66 billion in 2019 to $418 million in 2020. Bay Street expects sales to rise by 69% to $708 million this year and more than double to $1.47 billion in 2022. The company's bottom line is also expected to improve from a loss per share of $9.93 in 2020 to earnings of $0.12 in 2022.

The verdict

Air Canada and Cineplex should benefit as the world economy reopens and consumer spending shifts towards discretionary products and services. Pent-up travel demand as well as limited entertainment options amid COVID-19 are bound to act as catalysts for Air Canada and Cineplex, respectively.

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