



## New Omicron Variant Sends Air Canada Stock and Cineplex Stock Plunging

### Description

It's terribly tough for stocks like **Air Canada** ([TSX:AC](#)) stock and **Cineplex** ([TSX:CGX](#)) stock, which are highly sensitive to COVID news when COVID keeps coming back. On November 26, the new Omicron variant found in South Africa was declared by the World Health Organization as the fifth worrisome variant.

**Moderna**, one of the healthcare companies leading the war against COVID, [described](#) the Omicron variant as including “mutations seen in the Delta variant that are believed to increase transmissibility and mutations seen in the Beta and Delta variants that are believed to promote immune escape. The combination of mutations represents a significant potential risk to accelerate the waning of natural and vaccine-induced immunity.”

Moderna stock reacted to the news by rallying 20% higher. Unfortunately, the same news sent Air Canada stock, Cineplex stock, and the WTI and Brent oil prices plunging almost 9%, nearly 8%, 13%, and 11%, respectively, on Friday.

### Much is still unknown about the Omicron variant

We don't know if infected people will experience more severe symptoms. The Omicron variant appears to be more transmissible, but doctors believe that existing COVID vaccines should still provide partial protection against the virus.

The new variant situation is highly dynamic. No matter what health officials find out about the Omicron variant over the next weeks or months, it will probably increase the near-term volatility of Air Canada and Cineplex stocks. The selloff is probably not over, as the market reacted strongly to the news.

### Air Canada stock

Air Canada stock ran up to almost \$27 per share when the skies for international travel brightened thanks to global efforts in vaccine programs just earlier this month. Now, hit with the new variant, the

COVID-sensitive stock once again dropped below \$21 per share in recent trading — a level it hasn't seen since February.

The fear is about reinstated bans in international travel, as we have learned, it's better to curb the variant early than letting it go out of control down the road. This will, in turn, cut into Air Canada's revenue and widen its losses. As a reference, Air Canada's operating revenue was \$2.1 billion, and it reported an operating loss of \$364 million in the third quarter (Q3) compared to normalized 2019 Q3 operating revenue and operating income of just under \$5.6 billion and \$956 million.

*Deadline* [stated](#), "Already, the U.K., Australia, Brazil, Canada, Iran, Japan, Thailand and the European Union have imposed restrictions on southern African countries in response to warnings over the transmissibility of the new variant. Protections include flight bans, quarantine rules and the usual social distancing and mask requirements."

*Global News* [reported](#) that since the discovery of the Omicron variant in South Africa, new cases of the variant have already appeared in Britain, Germany, Italy, Belgium, Botswana, Israel, and Hong Kong. *USA Today* [noted](#) that the United States was one of the first countries to impose a renewed ban to and from eight African countries, including South Africa.

Lower oil prices wouldn't help [Air Canada stock](#) if its planes were grounded. The company's balance sheet has already been crippled as the pandemic progressed. Its debt-to-equity ratio is at alarming levels of close to 208!

## Cineplex stock

Like Air Canada stock, Cineplex stock also has a crippled balance sheet. However, Cineplex investors have it worse. The company's stockholders' equity was almost -\$200 million at the end of Q3. This meant the company had more debt than assets. If the company were to liquidate immediately, shareholders would get nothing.

If Canadians are worried about a potentially more dangerous variant floating around, they're less likely to watch movies and go to Cineplex's other entertainment locations — the Rec Room.

## The Foolish investor takeaway

Although the analysts' mean target project 12-month upside of 41% and 39%, respectively, for Air Canada stock and Cineplex stock, at this point, the COVID-sensitive stocks remain speculative. They can jump or fall rapidly with positive or negative news surrounding COVID.

Analysts can also re-rate the stocks over the next week. Furthermore, these businesses have a long way to go to improve their balance sheets. So, it's safer to wait for the stocks to stabilize first before considering them again.

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1. Coronavirus
2. Investing

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