Will Air Canada (TSX:AC) Stock or Cineplex (TSX:CGX) Stock Soar in January?

Description

Air Canada (TSX:AC) and **Cineplex** (TSX:CGX) face a challenging environment in the coming weeks. Contrarian investors, however, often use these moments to buy unloved stocks that might be undervalued.

The strategy comes with risks, as cheap stocks can certainly get much cheaper, but payoffs can also be outsized when the market mood suddenly changes course.

Air Canada

Air Canada trades for $21.50 at the time of writing. That's pretty close to where AC stock started 2021, but it is down from the $31 high it hit in March. Investors who bought the subsequent dips over the past eight months are almost all in the red right now.

The Omicron wave hitting Canada and the rest of the world puts Air Canada's near-term recovery in question. The airline was just starting to get back on its feet with robust winter holiday bookings and the opening of international travel.

New restrictions will put a dent in ticket demand, as people decide they don't want to go through all the troubles and expenses to get tested several times for COVID-19 as they travel. In short, the outlook is bleak for the next month or so until the full impact of the Omicron variant is known.

Buying AC stock now carries risk. If governments impose new broad-based lockdowns and close both international and provincial borders for an extended period of time, Air Canada stock could plunge back to $15 or even lower.

That being said, contrarian investors who are of the opinion the Omicron restrictions will be short-lived might decide the bad news is already priced into the stock and decide to buy while it is near the 2021 lows.

Cineplex

Cineplex also faces a rough ride in the coming weeks. New provincial restrictions are cutting theatre capacity or shutting the cinemas down completely to inhibit the spread of the Omicron variant. The holiday season is typically a big money maker for Cineplex as families take advantage of the school and work break to enjoy their favourite blockbuster release on the big screen and splurge on jumbo-sized treats and drinks.

On the positive side, Cineplex just won a court battle with U.K.-based **Cineworld**. The decision awards Cineplex $1.24 billion in damages as a result of Cineworld's decision to walk away from a takeover agreement it had made in December 2019 to acquire Cineplex for $34 per share.

Cineplex trades for $13 at the time of writing. That's up more than 50% in 2021 but down from the year high above $16. Cineworld plans to appeal the ruling, so it will be some time before the situation is finally sorted out. However, the court decision could put a floor under Cineplex stock heading into next year.

In the event the Omicron restrictions only last a few weeks, Cineplex could see a nice rebound in January. The strong ticket sales generated by the latest *Spiderman* film show there is still widespread interest in going to the theatre to see top movies. *Spiderman* recently generated the second-highest opening revenue in history.

Prolonged shutdowns would likely put Cineplex stock under added pressure and the risk of a successful appeal by Cineworld has to be considered when evaluating the stock. However, the upside potential is attractive for investors who think 2022 will be the year the theatre industry recovers.

The bottom line

Air Canada and Cineplex are not out of the woods and investors should consider new positions as speculative right now. That being said, contrarian investors who suspect the bad news is already reflected in the share prices might want to take a small position while the stocks are out of favour.

If you think Air Canada and Cineplex still carry too much downside risk, there are other cheap stocks in the TSX Index today that look attractive.

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Date
2025/08/25
Date Created
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