Air Canada Stock Is Cheap, but Is It the Best Stock to Buy Now?

Description

For two years now, **Air Canada** (TSX:AC) stock has been impacted by the pandemic. However, as more countries around the world look to return to normal and drop restrictions, now may finally be the time it can recover. Air Canada's not the only stock trading cheap, though, so you may be wondering whether it's the best stock to buy now.

While the pandemic has impacted several stocks and businesses, Air Canada stock has undoubtedly been one of the worst. The company hasn't just struggled to stay profitable. It's lost tonnes of value, burning billions in cash and having to take on a lot of new debt, in addition to diluting shareholders.

For this reason, it's been a stock I've been warning investors to avoid. While the share price has been cheap for some time, there was no telling how much value the company would actually lose and whether or not the price of the stock early in the pandemic reflected the value that it's worth now.

So, just how much value has Air Canada lost?

With Air Canada stock this cheap, is it the best to buy now?

Despite the fact that Air Canada stock continues to trade around $25 a share, roughly 50% below where it traded before the pandemic, the company is not as cheap as you might think.

At the end of 2019, ahead of the pandemic, Air Canada's enterprise value (EV) was $16.3 billion, with a market cap of $12.8 billion. Today, the stock's EV is actually slightly higher, at $16.4 billion, with a market cap of $8.8 billion.

So although it looks as though you can buy the stock for half the price it was in early 2020, it's not nearly that cheap. The EV is slightly higher, and the market cap is only down about 30%.

Therefore, at its current valuation, Air Canada stock trades at a forward EV-to-EBITDA ratio of roughly 8.6 times, more than double the valuation it had in the years leading up to the pandemic.

In addition, in 2022 the company is still estimated to report negative earnings per share. So looking at its price to 2023 estimated earnings, it still trades at an elevated 12.2 times, also higher than it's traded in the past.

Plus, with the conflict in Ukraine ongoing, the uncertainty could weigh on airline stocks. So if you're looking to buy a reopening stock, you may want to forget Air Canada and consider a stock like **Cineplex** (TSX:CGX).

Does Cineplex stock offer more value today?

Cineplex is in a similar situation to Air Canada stock. It's been impacted severely and has also lost a tonne of value throughout the pandemic. However, Cineplex looks like it has an easier road to a full recovery. In addition, its stock looks to offer more value for investors today.

Right now, Cineplex stock trades at a forward EV-to-EBITDA of roughly 7.9 times. That's not just cheaper than Air Canada. It's also cheaper than Cineplex has been at any time in the last decade, with the stock typically trading at a forward EV-to-EBITDA ratio of around 10 times.

Furthermore, Cineplex's EV today is just $2.7 billion compared to $4.2 billion at the end of 2019. That's roughly 35% lower, whereas Air Canada stock's EV is higher. Cineplex's market cap is also considerably lower. Currently, the stock has a market cap of just $850 million compared to $2.1 billion before the pandemic, a roughly 60% discount.

So with Cineplex trading at a cheaper valuation than Air Canada stock, and with the entertainment company facing fewer headwinds in the near term, if you're looking for a top recovery stock to buy now, I'd strongly consider Cineplex.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. danieldacosta
2. jguest

Category

1. Investing
2. Stocks for Beginners

Date
2025/08/21
Date Created
2022/02/26
Author
danieldacosta