Is Cineplex Stock a Better Recovery Stock to Buy Than Air Canada?

Description

Ever since the pandemic first caused stocks to sell off significantly and business operations to be impacted, there have been a few companies trading undervalued. Two of those hardest-hit businesses and some of the cheapest to buy now have been **Air Canada** (TSX:AC) and **Cineplex** (TSX:CGX) stock.

Both companies have understandably been impacted. Cineplex relies on hosting hundreds of its guests indoors, whether they are at movie theatres or one of its entertainment locations, such as The Rec Room.

Air Canada, however, has been impacted severely by travel restrictions in addition to the hesitancy to travel and the complicated nature of different requirements in countries around the world.

Because they are two of the most impacted businesses, Air Canada and Cineplex stock have seen their fair share of attempted recovery rallies. When the vaccines were announced, as well as during dropping case counts, these stocks got a boost. However, they've never fully recovered and likely won't until the pandemic is entirely in the rearview.

So, if you're looking to buy a recovery stock today, here's the better buy between Air Canada and Cineplex.

Air Canada stock

There is no doubt Air Canada stock will likely start to see a significant recovery this year. The company's operations already have seen a strong recovery to end 2021, despite the Omicron variant.

With many countries starting to drop restrictions and with travelling expected to get much easier this year due to fewer restrictions, there will certainly be a strong rebound in Air Canada's operations, barring any significant setbacks in the pandemic.

However, despite this recovery from a lot of countries, there will still be some countries with tight restrictions, and a new variant can cause travel restrictions to be put back in place quickly, as we've seen in the past.

So, although Air Canada can make significant progress this year, it may have a harder time fully recovering to 2019 levels of capacity, especially compared to Cineplex stock.

Another issue with Air Canada is that its stock isn't really undervalued at this price. The company's enterprise value is higher than it was prior to the pandemic. Furthermore, its forward price-to-earnings estimate based on 2023 estimated earnings is considerably higher than it's been in the past.

With that being said, the analysts covering Air Canada have an average target price of $29.29, a roughly 20% premium to today's price, so there is still some upside potential but, in my opinion, not enough to be worth the risk.

Cineplex stock

To be fair, Cineplex is not necessarily that cheap either. If you're looking purely for a value stock, there are certainly cheaper stocks to buy. However, it could still see a significant recovery especially due to its earnings potential over the coming years.

In addition, Cineplex stock hasn't lost nearly as much value through the pandemic as Air Canada. Plus, going forward, in regard to the pandemic, Cineplex only really relies on Canada's pandemic restrictions. So, as more countries around the world continue to drop restrictions, especially in most states south of the border, Canada and its provinces will likely be following suit soon.

And once restrictions are fully dropped, Cineplex could see a massive rally as a result, given all the pent-up demand to return to movie theatres or head to its entertainment venues. This is why I think Cineplex will be able to make a full recovery much quicker than Air Canada stock.

And because it looks like Cineplex can recover quicker, plus the theatre stock offers more value today, if you're looking to buy a recovery stock now, I'd give the edge to Cineplex over Air Canada.

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