Value Investors: Time to Buy Air Canada and Cineplex Stock?

Description

When the COVID-19 pandemic initially shook the world last year, stocks in the travel and entertainment industries were crushed. The rapid fall of many of these stocks brought them into the forefront for deep value investors. Now, with vaccine rollouts and the world seemingly ready to enter recovery mode, is it time to buy **Air Canada** (TSX:AC) and **Cineplex** (TSX:CGX) stock? In this article, I'll discuss why it may not be such a great idea to do so.

Planes are still grounded

International borders were closed for most of 2020. Today, they remain closed to recreational travellers. In fact, it's estimated that the U.S.-Canada border will remain closed until 75% of Canadians receive a COVID-19 vaccination. Despite this, many investors have been building positions in airline companies like Air Canada in hopes of a quick rebound.

In its latest earnings report, Air Canada stated that the company continues to face a severe drop in traffic due to the travel restrictions imposed by international governments. Given the continually changing international policies and the severity of the restrictions in Canada, Air Canada is unable to provide any insight as to when operations will return to normal levels. The effects of the restrictions on Air Canada's business can be seen in its revenue and cash flow statements.

For the first three months of 2021, Air Canada managed a revenue of $729 million; of this total, $334 million came from cargo and other non-passenger revenue streams. This compares to a total revenue of $3.722 billion in the first three months of 2020. Keep in mind that lockdown restrictions were starting to get rolled out countrywide in mid-March last year.

In both years, Air Canada endured heavy losses over the first quarter. In 2020, the company reporteda net loss of $1.049 billion from January to March. This year, Air Canada posted a net loss of $1.304 billion. So as lockdown restrictions begin to ease, the company's losses have actually been increasing. Historically, the company has seen stronger quarters in Q2 and Q3, so there may be better places to park your money today.

The cinema industry is dying

Another very popular deep value stock among Canadians is Cineplex. This is the premier brand in the Canadian film entertainment industry. As of the end of 2020, Cineplex had 162 operational theatres featuring 1,667 screens. There's no doubt that the company has been very successful historically.

However, it may not be the best investment today. Not only have streaming services been increasingly adopted since 2012, but the COVID-19 pandemic has accelerated this adoption significantly. Companies like **Netflix**, **Disney**, and **Roku** have been seeing exceptional growth over the past year, which can only hurt Cineplex in the long run.

Taking a look at the company's financial statements confirms the shaky situation in which it finds itself. Over Q1 2021, Cineplex reported a total revenue of $41.4 million. This compares to a total revenue of $282.8 million in Q1 2020, a year-over-year decrease of 85.4%. The company also reported a total attendance of about 400,000 in Q1 2021. This compares to a total attendance of 10.7 million in Q1 2020, a year-over-year decrease of 96.1%.

Finally, the company's cash burn has been increasing each quarter since the start of 2020. In Q1 2021, Cineplex reported an average monthly cash burn of $26.9 million compared to an average monthly cash burn of $17.9 million in Q1 2020. However you view it, Cineplex doesn't seem like a very solid investment right now.

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Date
2025/08/26
Date Created
2021/05/26
Author
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