



Why I Wouldn't Bottom-Fish for This Rancid Stock

Description

Last summer, before **Cineplex Inc.** ([TSX:CGX](#)) shares fell off a sharp cliff, I'd [warned investors](#) that it was time to throw in the towel, as there were many headwinds and given the absurd valuation (39.34 times trailing earnings at the time of the sell recommendation). The stock was just too risky given the meagre rewards.

After the house of cards started to crumble last August following the release of an underwhelming earnings report, I'd strongly urged investors to [avoid buying the dip](#), as shares were still extremely expensive at the time, and a further plunge was on the horizon thanks to the numerous short- to medium-term headwinds that would begin to mount.

Another 33% drop later, I went into detail on why Cineplex stood to be a casualty in the war with video streamers. I thought investors should continue to look elsewhere, as the name was still expensive, despite dropping ~43% from peak to trough.

"Cineplex will be the one left out in the cold, and if it hasn't diversified away from its box office and concession segments by then, the stock could suffer a much larger correction and could stand to shed another +50% of its value from current levels. As the industry landscape continues to shift, it'll be original content that will remain king" I wrote in February.

Indeed, it seems that I'm a [permabear](#) when it comes to Cineplex, as fellow Fool contributor Will Ashworth noted in his latest bull article on the company.

I've mentioned on numerous occasions that the box office segment is in secular decline, but this is nothing new. The only difference this time around is that this decline is accelerating due to the massive content backlog that many of us probably can't get through! I'll refer to this backlog as "content constipation" for your amusement!

Unless it's a special **Walt Disney Co.** ([NYSE:DIS](#)) production, it seems like nobody cares to go out to see a movie anymore, because there are just too many satisfying things to watch on **Netflix, Inc.** ([NASDAQ:NFLX](#)).

A worsening case of content constipation

If you're like me (or many others), you've probably got tens, maybe even hundreds of shows and movies that are on your customized watch list! And, of course, you'll probably never get through all them because the "trending now" (or other lists) is full of new content that may be targeted to your specific preference!

As such, you'll either keep adding to your massive watch list backlog, or you'll watch one of them instead of going out to see that new film in theatres. And if you're a subscriber to multiple video-streaming services, this watch list backlog issue becomes even worse!

There are too many great things to watch and not enough time! It's a great problem to have for our wallets; unfortunately, it's not a great trend for the movie theatre operators, because that money you save isn't going into the pockets of Cineplex shareholders.

Moving forward, Netflix and its fierce competitors can only be expected to continue funneling a tonne of cash on the production of original content. And this is going to add to Cineplex's problems on the box office front, as the video-streaming content constipation exacerbates them.

Even great big-budget films are no guarantee of success at the box office anymore (unless it's got the magic of Disney)!

"Just wait 'til it's on Netflix!" is a phrase that many former movie-goers are probably using excessively these days, and who can blame them? Going to a movie is expensive, and if you've got a massive backlog of stuff you want to watch, you may feel guilty or even wasteful by choosing to go to the movies.

I believe this trend of content constipation will only get worse, and unfortunately, Cineplex will continue to get hit until it's able to meaningfully diversify away from the box office. Management has made it clear that it's pursuing efforts necessary to distance itself from its legacy business model.

I'm bullish on the [entertainment and amusement](#) business, but for now the box office is going to continue to dictate the trajectory of the stock, so I'd recommend remaining on the sidelines.

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