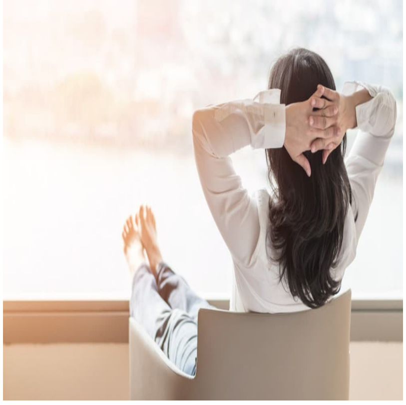

Forget Cineplex (TSX:CGX): Here's a Better Battered Bargain to Bet On!

Description

Cineplex (TSX:CGX) stock has been in the doghouse ever since I called its demise back in the summer of 2017 when the stock was a market darling that some income-oriented investors saw as a "safety" play. Fast-forward to today and the stock is down a staggering 70%.

From peak to trough, shares of Cineplex got cut in half twice, punishing those who attempted to catch the rapidly falling knife on hopes that the box office would recover.

While I am a raging bull on the longer-term recovery of the movie theatre industry (movie theatres and streamers can co-exist), I don't think a name like Cineplex is guaranteed to survive long enough to see an industry comeback.

Cineplex's financial footing is way too weak given the unprecedented uncertainties

The company has both a meagre liquidity and solvency position, making the iconic Canadian entertainment kingpin at high risk of going bankrupt amid the coronavirus crisis. There's also no telling how many more coronavirus-induced shutdowns will be in the cards over the intermediate-term, so it's impossible to gauge when cash flows will sustainably recover.

Moreover, given that densely crowded venues are among the last of establishments to be reopened in a phase-based return to normalcy, Cineplex is essentially nothing more than a bet on either an approved takeover (by Cineworld or not) or a timely arrival of a vaccine.

Investment Canada is currently reviewing the Cineplex-Cineworld potential takeover. The deadline for such a deal is June 30 and is still subject to a handful of conditions. The odds of such a deal falling through, I believe, are high as uncertainties relating to COVID-19 continue to mount.

As such, I would encourage investors to steer clear of a name like Cineplex, given its alarmingly high risk of insolvency, even for those comfortable with placing an “all-or-nothing” type of bet.

Got deep value? Check out Corus at these depths

For those seeking significant gains in an upside correction, I’d urge investors to consider shares of **Corus Entertainment** (TSX:CJR.B), a deep-value play that’s in a much healthier financial position than its longer-term stock chart would suggest. Shares are also more battered than the likes of a Cineplex, now down 85% from its 2014 heights.

Sure, Corus is a play on old-school media and TV advertising, which is in secular decline. But as a deep value investor, one has to look at what they’re getting for the ridiculously low price of admission.

While it is risky to bet on a company that’s on the wrong side of a secular trend (cord-cutting continues picking up traction), the line has to be drawn somewhere for a firm that’s still pulling in ample amounts of free cash flow. And that line, I believe, ought to have been drawn back at $8.

Call Corus a cigar butt of an investment if you like. But it’s one that still has plenty of puffs left for those willing to pick it up at its dirt-cheap multiple. The coronavirus crisis has affected cash flows, but I expect it to normalize back to around $300 million over the next year as the economy continues on its V-shaped recovery trajectory.

There are a few catalysts that could move the needle for Corus over the longer term, and with shares trading at 0.48 times book, I’d say now is time to back up the truck if you’re looking for an unprecedented bargain that’s disconnected from its underlying fundamentals.

CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)
2. TSX:CJR.B (Corus Entertainment Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus

2. Investing
3. Stocks for Beginners

Date
2025/08/26
Date Created
2020/06/09
Author
joefrenette