2 Takeover Target Stocks to Avoid This Summer

## Description

It's time to play "takeover targets," the fun game where investors guess which companies are in danger of being bought out. Today, we have two key stocks that are looking thoroughly chewed up. These are names that investors should only buy if they believe a takeover could be a viable way out of these businesses' financial troubles.



# A troubled retail stock

**Indigo Books & Music** (TSX:IDG) has suffered a dismal performance during the pandemic, with locked-down customers wooed by online competitors. While Indigo does have a digital element, names like **Shopify** have made it much easier for booksellers to set up a stall online. Down 23.8% over the last five days, Indigo looks very much like a falling knife right now.

**Amazon** is another well-established competitor that was already well positioned to capitalize on the sudden and profound shift in consumer habits during the quarantine. However, what makes Indigo interesting at the moment is the combination of a rapidly tanking stock with a wide-moat retail status.

Brick-and-mortar stores are likely to be impacted long-term, and not just in terms of lost sales. Some degree of social distancing is likely to remain part of normal life, stripping down actual physical capacity in stores, restaurants, bars, and other public spaces. Names like Indigo present buying opportunities for business moguls looking to snap up cheapened, ready-made retail networks to be absorbed into bigger, expanding empires.

Meanwhile, **Cineplex** had been on the cusp of breaking out. A $2 billion deal was tentatively in place that would see **Cineworld** take the reins of Canada's dominant theatre network. Then came the pandemic. While plans are afoot to reopen theatres, Cineplex stock is nevertheless tattered, down 8.8% since last week. Could this divisive name become a takeover target? It certainly looks that way, with its comprehensive network of devalued assets.

# Takeover targets or falling knives?

Indeed, growth through expansion is a key model for businesses on the lookout for cheap assets. Such moves create money-saving synergies while adding long-term value to a business. Huge volumes of ticket and add-on sales have been lost, though, and capacity will be lower going forward. Society has also become far more politicized and polarized during the pandemic. This could mean that individual titles are less likely to have broad appeal.

Both Indigo and Cineplex could rocket on news of a buyout. However, while both names are indeed takeover targets, neither look particularly likely to actually be taken over. Look at how fast the digitalization trend is gathering momentum. Shopify is up more than 150% year on year. **Netflix** has remained stolidly positive, even if it has lost much of its steep inclination. And Amazon continues to attract growth investors.

It will take a vaccine, even a seasonal vaccine, one that people will have to take regularly to maintain its efficacy, for theatre and retail to bounce back. But even then, brick-and-mortar businesses could prove less sustainable than they were pre-pandemic. The damage has already been done. The true digital age is upon us, and technological advances don't roll back — they evolve.



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