# 4 Things That Can Cause Cineplex (TSX:CGX) Stock to Surge

## Description

**Cineplex** (TSX:CGX) stock rallied 10.8% yesterday, because it announced that all of its theatres and entertainment venues will be open today. Despite social-distancing measures that will result in reduced seating capacity, Cineplex stock's Q3 results should markedly improve from Q2.



Theatre attendance was nil in Q2 due to forced closures. For most of Q3, there was partial reopening of its network of entertainment venues. With full reopening today, in late August, and if this continues into the remainder of the year, Cineplex's business performance in the second half of the year should be much better than in the first half.

Any improvement against Q2 should help drive the stock price higher. Here are three more things that can trigger a rally in Cineplex stock.

## A favourable court outcome

Cineplex almost got acquired by U.K.-based Cineworld for $2.8 billion (or $34 per share) early in the year. Unsurprisingly, Cineworld called off the deal in June.

It blamed Cineplex for breach of contract, but the latter insisted it did no wrongdoing. Cineplex had commenced an action in the Ontario Superior Court of Justice to claim compensation from Cineworld.

Any positive outcome from the case, such as compensation in a potential lump sum payment, can cause a surge in Cineplex stock.

## COVID-19 developments

Much of the negative impact in Cineplex's operations were due to the COVID-19 pandemic-induced government-mandated closures. Positive developments in this area can drive more positive sentiment in the stock.

A drop of COVID-19 cases due to social distancing can increase the confidence of moviegoers to go to the theatres. The development and distribution of effective vaccines is another reason that can boost their confidence.

Some experts even believe that COVID-19 could turn into something like the flu that stays with us, requiring updated vaccines when the season rolls around annually.

Maybe it's just something that we will get used to. If this becomes the case and people get used to it, they will go out more for entertainment, just like before.

## Dividend reinstatement

Cineplex used to be blue-chip dividend stock. To preserve capital, it has been forced to suspend its monthly dividend since February. Being the company that it is, Cineplex must be itching to restart its dividend. However, it cannot re-initiate one too soon.

Cineplex's financial obligation has increased after it raised $316 million from convertible debentures in July. It is required to pay 5.75% annually in interests for the debentures through September 30, 2025.



Additionally, we're not out of the woods with the COVID-19 pandemic yet. The situation is very dynamic with lots of moving parts.

However, whenever Cineplex does re-initiate a dividend, perhaps sometime next year, the stock should rally.

## The Foolish takeaway

Despite the nearly 11% rally yesterday, at $9.12 per share, Cineplex stock is still down 73% year to date from $34 per share, a premium price that Cineworld was willing to pay before the COVID-19 pandemic came into light.

Cineplex stock trades at only a fraction of that premium price. However, the situation has changed due to the real impacts of the pandemic. The million-dollar question is, what is Cineplex's new normalized business worth?

From the current levels, it can potentially trade at $14 over the next two years for annualized returns of close to 24%! However, it doesn't change the fact that the stock is a high-risk investment today.

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