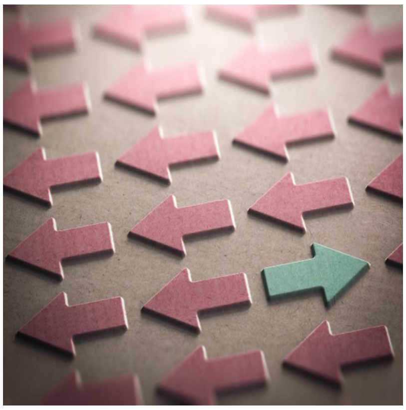

Why Cineplex Stock Is a Better Buy Than Netflix (No, Really)

Description

The pandemic is still happening, and its effects are going to continue long after it's abated. Investors have been weighing long-term economic pain with near-term gains, though. Some of the strongest contrarian theses currently doing the rounds involve buying into chewed-up market leaders that are rich with turnaround potential. One of the most popular of these plays is **Cineplex** (TSX:CGX).

What's up with entertainment stocks?

Netflix (NASDAQ:NFLX) looks to have peaked. Having gained 79% in 12 months, this stock now trades with a P/B of 23 times book and a P/E of 83 times earnings. Looking at its price targets, selling at $487 a share, Netflix is far in excess of its low target of $220. It's also lost its momentum, which means that even its median target price of $505 looks unattainable. Downside of -3.6% is estimated.

On the flipside, Cineplex has a P/B of 1.87 times book and has ditched 62% in the last 12 months. The contrarian case for buying low is strong with the Canadian entertainment company. Picking up shares on weakness could see investors clean up further down the line.

Netflix was already facing stiff competition from some major players before the pandemic kicked in. Names like **Disney** and **Amazon** have been muscling in on the content-streaming turf. The new platform Disney+ came along at just the right moment — or the wrong moment, depending on one's point of view. But perhaps Netflix's biggest threat comes not from streamers, but from a reopening of the economy.

Of of the issues with Netflix is that it's ad-free. Why is this an issue? For one thing, rival platforms such as standard TV have seen a downturn in advertising fees during the pandemic. When this revenue stream picks back up again, these rival platforms will enjoy a boost that ad-free platforms will not. Consider the like of **Rogers Communications**, for example, or Bell Media owner **BCE**.

Why is Cineplex a good investment?

Cineplex has been thoroughly chewed up by the pandemic. But it's now reopening theatres and testing the waters of a post-pandemic world. If successful, it has everything to gain. Of course, some negative press could set the reopening process back. The pandemic market is incredibly event driven, meaning that even a single drop of blood will get sharks swarming. However…

Cineplex is in an excellent position to come back stronger. It's the market leader for movie entertainment in this country. It was also on the verge of a breakthrough deal with **Cineworld** just before the pandemic hit. The first characteristic makes this a stable wide-moat play. The second suggests that another such deal might be forthcoming once the world gets back to something resembling normality.

Up 10.45% in the last five days, investors clearly think that good things lay ahead for Cineplex. With studios gearing up for a slate of new releases, theatres could start to see revenue pick up. Investors on the lookout for momentum in the entertainment field should note the potential for 22% upside. Meanwhile, contrarians and bargain hunters alike should consider buying a ticket and waiting for the show to start.

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1. entertainment
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