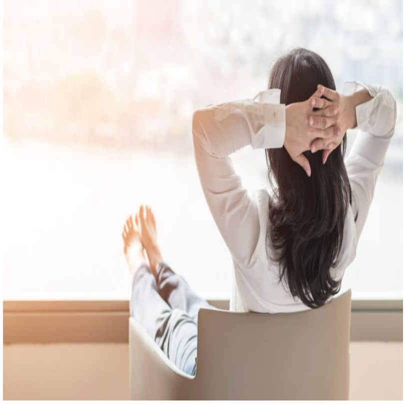

Is Cineplex (TSX:CGX) Stock a Deal at $10?

Description

Cineplex (TSX:CGX) stock is downs 80% in the past four years. Long-term investors who relied on the company for its steady dividends are unlikely to see a return to the glory days.

Contrarian investors with an eye for value, however, wonder if this might be a time good time to add Cineplex to their stock portfolios.

Cineplex stock plunge

The shift from dividend darling to market dog caught many investors by surprise, but the writing was on the wall.

The stock used to be a go-to pick for income investors. Analysts raved about the business model and consistently recommended the stock. It is true the business was a cash cow, charging ever-rising ticket prices and making massive margins on super-sized popcorn, candy bars, and soft drinks at its theatres across Canada.

In 2018, however, the wheels started to fall off the gravy train. Market watchers should have seen the trouble coming. Broadband internet technology had advanced to the point where most people could get quality video streaming on their home computers, tablets, and smart phones. This led to a rise in subscriptions for streaming services, including **Netflix**.

Now, **Disney**, **Apple**, **Amazon** and others have joined the streaming wars, spending billions on content creation to satisfy consumer demand.

COVID-19 made an already challenging situation for theatre business even worse. Interestingly, Cineplex shareholders almost avoided the pandemic plunge, but the proposed takeover of the company by **Cineworld** didn't close in time. Cineworld announced in June that it will not proceed with the $2.2 billion deal. Cineplex is challenging the decision in court, but the market doesn't think it will be successful.

The stock fell from $33 per share earlier this year to below $8 as recently as last month. It traded above $50 at the peak in 2017.

Cineplex has now reopened all of its theatres across the country, providing a lift for the stock price in the past few weeks. Cineplex currently trades close to $10 per share at writing.

Should you buy Cineplex stock?

While a revival of the Cineworld deal is possible, it probably wouldn’t happen at the same price. Pundits also speculate the streaming giants might look to move into the theatre space while the the sector is heavily discounted.

The $2 billion price tag for Cineplex that Cineworld was willing to pay is a drop in the bucket for the tech giants. Buying Cineplex would give them an opportunity to leverage the existing relationship with their subscribers and drive extra revenue on their top content offerings.

I’m not sure investors will get $33 per share unless a bidding war emerges among the streaming companies. However, $15-$20 per share wouldn’t be a surprise.

The future of the movie theatre business, however, is uncertain under its current structure. There is a risk that top content creators could simply decide to skip theatres altogether and take all new major productions directly to their audiences through the online platforms.

Owning 164 Canadian theatres might not be worth the trouble for the streaming giants. Investors have to take this into consideration when evaluating the stock. Betting on a buyout is always a risky strategy.

What should investors do?

Cineplex appears cheap right now if you are of the opinion people will flock back to the big-screen once COVID-19 vaccines are available and the pandemic is no longer a threat. It’s a risky bet, but contrarian investors might want to start nibbling on Cineplex near the current price.

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