Sell Cineplex (TSX:CGX) NOW and Buy This Top Stock Instead

Description

In late July, I'd recommended that TSX investors stay away from stocks in struggling sectors. **Cineplex** (TSX:CGX) was one of the stocks I'd discussed at the time. As grim as the situation has been for movie theatres, the stock did manage to gain momentum in late August. Today, I want to discuss why investors should give up on this stock and seek out another promising equity instead.

Why you should sell Cineplex right now

Shares of Cineplex fell 2.52% on September 3. The company released its second-quarter 2020 results on August 14. Predictably, revenues and customer traffic took a dive. It was forced to cease cinema operations in the middle of March. This last into late August. Now, Cineplex has managed to open all its locations across Canada. However, they must operate at a limited capacity.

In the past, Cineplex offered a hefty monthly dividend that investors could count on. The COVID-19 pandemic forced the company to halt its dividend offering. This means the stock is only valuable to those hoping to take advantage of a price rebound going forward. Big releases are on tap in the final months of 2020. Many Canadian consumers still lack enthusiasm with the pandemic in the back of their minds. Investors should expect home entertainment options to continue to draw eyeballs away from the theatre.

Worse, Cineplex currently possesses a high level of debt, and it needs to fight its way back to profitability. There just aren't many good reasons to keep betting on Canada's top theatre company today.

This "sin stock" offers a different kind of entertainment

A “sin stock” is an equity connected to industries like alcohol, cannabis, and gambling. So-called sin industries have historically been reliable, even during tough economic periods. **Pollard Banknote** (TSX:PBL) manufactures and sells a range of gaming products and services for the lottery and charitable gaming industries around the world.

Shares of Pollard have dropped 6.4% in 2020 as of close on September 3. The stock is up 17% month over month. Pollard released its second-quarter results on August 12. Unlike Cineplex, Pollard performed very well in the face of the COVID-19 pandemic.

In the early weeks of the pandemic, from mid-March to mid-April, the lottery market experienced a decline in retail sales of instant tickets. Sales activity has bounced back significantly in this space. The lottery industry has also moved into the e-commerce space, which has provided a boost to activity. Since the beginning of May, retail sales have climbed by roughly 20-25% compared to the previous year.

Total adjusted EBITDA rose to $19.8 million in Q2 2020 compared to $13.6 million in the prior year. Meanwhile, in the year-to-date period, adjusted EBITDA increased to $35.8 million over $30 million in the first six months of 2019.

Pollard stock last possessed a price-to-earnings ratio of 28 and a price-to-book value of 3.7. This puts the stock in average value territory relative to industry peers. There is a lot to like about the spike in lottery sales activity when it relates to this company. I’m still bullish on its chances going forward, especially compared to Cineplex.

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1. TSX:CGX (Cineplex Inc.)
2. TSX:PBL (Pollard Banknote Limited)

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