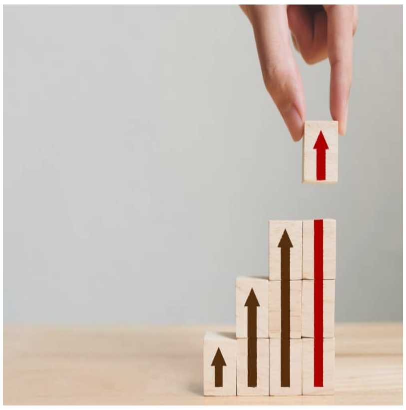


Can Cineplex Stock Double by 2021?

Description

There is no question that one of the cheapest stocks on the **TSX** today is **Cineplex** (TSX:CGX). The stock has had an extremely adventurous and unfortunate year, with a price these days that's roughly 75% below where it started the year.

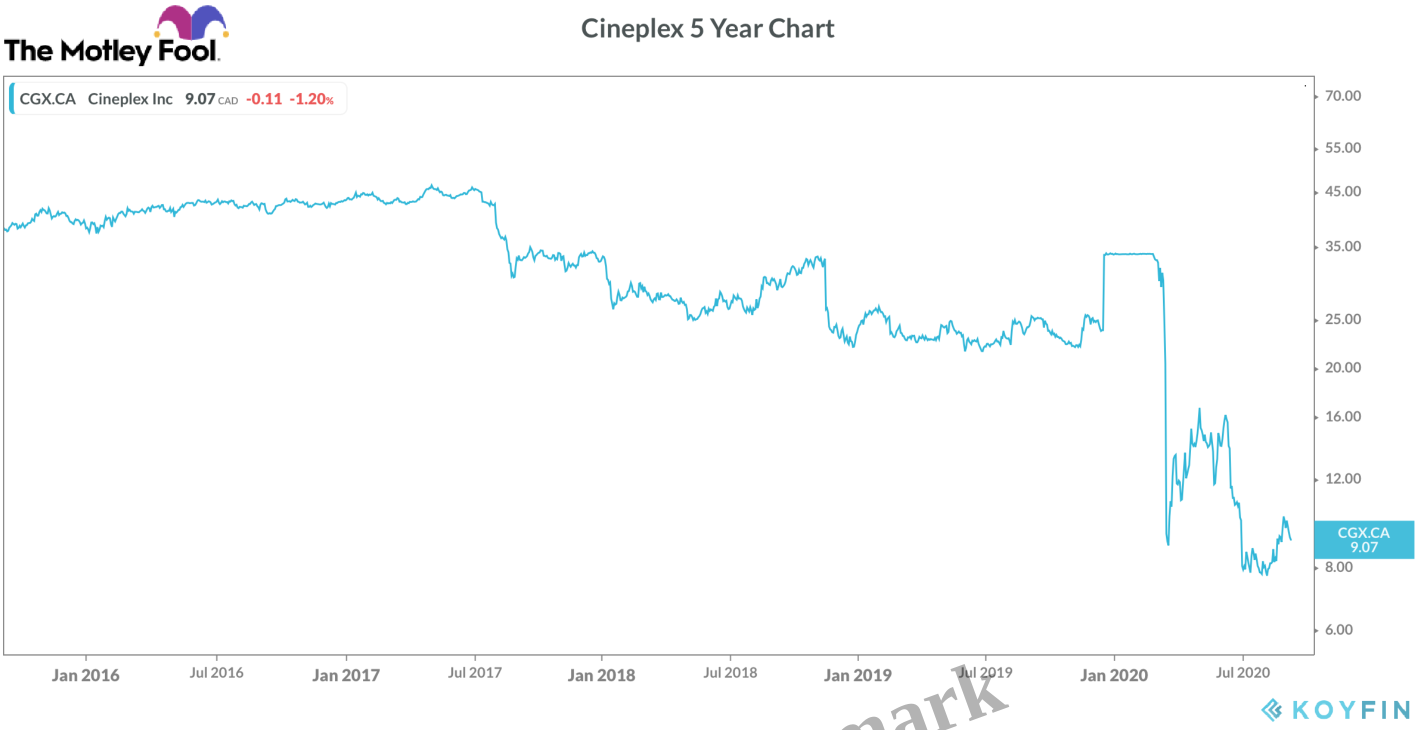
Investors are trying to grapple with whether the company is a significant bargain at these prices or a value trap that may never recover.

The result is an extremely undervalued share price that has savvy investors strongly considering investing at these dirt-cheap prices.

Cineplex's background

To get an idea of whether Cineplex can double by the end of the year, we should first understand what it was worth before and why it was worth so much.

Cineplex is a stock that, on top of having an eventful year in 2020, has actually had a very busy last couple of years.



The stock's initial decline started back in 2017, as investors worried the theatre business was maturing, and Cineplex's potential had maxed out.

While movie theatre growth has slowed, Cineplex had been doing a great job of finding new ways to increase how much each customer was spending on their trips to maximize its revenue growth.

It also exposed itself to the growing e-sports industry — a move I think was prudent and still has a tonne of potential for years.

The company didn't stop there, however. It also has built a number of The Rec Room locations as well as Playdiums to grow that segment of its business. This was going well and helping the company to diversify away from theatres.

Plus, it owns other businesses, such as its advertising media business, which really made the company an intriguing investment, and that's the main reason why I recommended it to investors.

In fact, the company looked so attractive that Cineworld offered a 42% premium to the stock price back in December.

This is where the company was entering 2020 and when the coronavirus pandemic hit.

Cineplex today

Today, Cineplex is in a much different scenario. Despite business operations that have gone unchanged, the coronavirus pandemic has had a major effect on the majority of Cineplex's revenue.

The deal with Cineworld fell through, and the company is back on its own.

So far, the impact on its business has been enormous, but now that the company has reopened all of its locations, it's looking in much better shape going forward.

The next earnings results will be crucial for investors to get an idea of how the company is managing to perform under the strict COVID-19 regulations.

Not only will it be important to see how profitable it can be, but also what kind of financial position Cineplex is in, and whether or not it will need to raise more cash.

I expect a significant price movement at the next earnings release, and if the company manages to report a surprise beat, it's very possible it could double by year-end.

Bottom line

Even if it doesn't double by year-end, Cineplex is a stock that has proven to be high quality and has always found new ways to overcome roadblocks.

So, at these low prices, in my opinion, it's at least worth it for long-term investors to take a small position.

CATEGORY

1. Coronavirus
2. Investing

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