Growth Stocks: Risk vs. Reward in a Digital Hollywood

Description

It's never been done before, and it could change the movie-making world forever. It's pandemic-friendly and highly ambitious. But what are we talking about here?

It's **Netflix's** (NASDAQ:NFLX) game-changing ambition to produce six animated features a year. Leaning into animation is a strong play amid social distancing concerns in an industry crippled by lockdowns. It's also aggressively competitive and could drive movie industry market momentum – in both directions.

The "Streaming Wars" enter a new phase

As per Netflix co-CEO Ted Sarandos in a recent interview with *Variety*: "Our animation ambition right now is not just to step up and be as big as someone who's doing it today — we're on a path to be releasing six animated features a year, which no major studio has ever done, on top of the very healthy slate of animated series."

By angling for animated movie dominance, Netflix is squaring up against major studios such as **Disney** . Indeed, Disney stock has rarely been out of the headlines south of the border. The House of Mouse is increasingly imperiled as shareholders fret over shuttered theme parks and a movie exhibition space ravaged by the pandemic.

But it's not just Disney. Movie exhibition is an endangered industry right now, and could even require government dollars to help it survive the pandemic. And the effects can be seen on both sides of the Atlantic. From **Cineworld** and **AMC** to Hollywood A-listers themselves, the call for liquidity is reaching fever pitch. For Canadian investors, **Cineplex**'s (TSX:CGX) five-day drop of 30% exemplifies this sudden loss of capital.

A strong contrarian thesis for movie stock upside

Against this backdrop, the idea of Netflix's bid for animated feature dominance is concerning. It helps to cement a culture of socially distanced movie production, for one thing. For another, it helps Netflix to further challenge the hegemony of traditional studios. Perhaps worst of all, though, is that it's potentially unsustainable — and that could hurt Netflix's bottom line in the longer term.

The contrarian case for buying Cineplex shares has never been stronger, however. Imagine that the movie industry gets the bailout it needs. Or imagine that a vaccine hits the markets tomorrow. Or even the sudden emergence of some innovation that reduces transmission in enclosed spaces. Any of these three things could see Cineplex rallying off its 12-month 80% losses.

But what do investors think of the move? As it stood at the start of the week, Cineplex was negative by 6.4% as of Thanksgiving. Across the pond, Cineworld saw its stock collapse by almost 40% last week after announcing that it was shuttering U.K. and U.S. theatres, and is now down 86% year-on-year. But Netflix was up 1.4% Monday, making for a five-day gain of 4.3%.

Investors in this space need to check their bullishness on a recovery. Speculative side bets seem appropriate, with the potential for thoroughly chewed-up exhibitors to see sudden upside. Meanwhile, however, tech investors have already discovered that Netflix is no longer the growth stock it once was, whatever its studio ambitions may be.

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