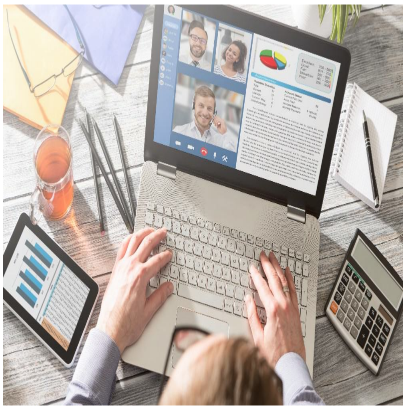

3 Strong Reasons Why Cineplex Stock Is a Top Contrarian Buy

Description

The number one movie exhibition stock dropped 10% at the start of the week. But the stock quickly bounced back, and – at the time of writing – soon reclaimed those losses, and then some. Sitting on an average five-day 3.5% gain midweek, **Cineplex** (TSX:CGX) is exhibiting some stubborn charisma. Indeed, this is a quality stock that could crush expectations in a post-pandemic Canada. Here are three sound reasons why.

A bargain stock at today's prices

One good thing about this stock being historically cheap… is that it's *historically* cheap. Of course, that is bad news for the shareholder focused on the near-term, especially those with strict exit points. But it's good news for newcomers and contrarian investors looking for speculative plays for mid- to long-term upside. In the meantime, current shareholders should remember why they bought a stake in the first place, and consider carrying on holding.

Wide-moat market share dominance

Cineplex is a stock on the ropes. This week has underlined its vulnerability to even deeper downside. But what if this big name in movie exhibition bounced back in 2021? Cineplex is in a better position than any other business to dominate the Canadian movie exhibition space upon a post-pandemic recovery. Investors still on the fence about this name should bear in mind that Cineplex is still the market leader, and a major force in North American entertainment.

Recovery upside potential

There can be few names as thoroughly chewed up as Cineplex. Down 78% in the last 12 months, Cineplex has bled a truly alarming amount of capital. The last three months alone have seen Cineplex's share price lose 35%. But the contrarian might look at this cheap stock and see nothing but recovery potential. A speculative play, to be sure, but one that has some (albeit optimistic) logic behind it.

At the time of last year's proposed **Cineworld** takeover, I wrote, "At the end of the day, entertainment is a customer experience, an end point that combines technology with storytelling. While content streaming is likely to continue to be a growth industry, the social importance of cinema-going cannot be underestimated, as record box office takings have shown this year."

Imagine the upside potential if a recovery sees the return of that kind of revenue. Assuming, that is, that Cineplex doesn't go completely bust in the meantime. But there are two reasons why it probably won't: First of all, no economy can comfortably afford another summer like the one that just passed. This means that the worst may very well be behind us – in terms of shutdowns, if not actual transmission figures.

Cineplex avoided going bust during the worst of the pandemic. So there's that. The other reason why this stock probably won't go to zero is that the movie industry might conceivably get bailed out if the current situation worsens or goes on much longer. Nobody's seen a movie exhibitor bailout, it's true. But times are strange. It could happen – after all, movie exhibition is a billion-dollar industry.

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