



## Cineplex (TSX:CGX) or Suncor (TSX:SU): Which Falling Knife Should You Buy?

### Description

**Cineplex** ([TSX:CGX](#)) and **Suncor Energy** ([TSX:SU](#)) stock have taken massive hits to the chin this year. The [coronavirus disease 2019 \(COVID-19\) pandemic](#) has decimated the movie theatre and fossil fuel industries. With another wave of cases sweeping through the nation, both falling knife stocks are at high risk of imploding further.

### To catch a falling knife

Investors may think that there's deep value to be had in such battered names. But as someone wise once said, "Just because a stock is cheap doesn't necessarily mean that it's undervalued." Catching a falling knife with the expectation that it'll ricochet off the floor can be hazardous to your wealth. So, unless you've got a sound thesis, it may be wiser to stick on the sidelines, even though either name could enrich you in a sudden reversal.

I've been a harsh critic of Cineplex well before the movie theatre industry fell to its knees this year. And with many folks, including the likes of *Mad Money* host Jim Cramer, losing faith in the fossil fuel industry as a whole, it can be tough to justify a contrarian investment in a name like Suncor, given that some skeptics believe that fossil fuels are headed the way of the Dodo bird in favour of sustainable sources of energy.

### On the wrong side of a secular trend

Not only are both firms feeling the full impact of the COVID-19 crisis, but they're also sitting on the wrong side of a long-lived secular trend. Cineplex and the movie theatres have been (and will likely continue) losing ground to video streamers that have been popping up left, right, and centre of late.

As for Suncor, investors have begun to turn against even the best-in-breed players in the oil patch for renewable energy plays that have picked up meaningful traction in recent months. Moreover, a Joe Biden U.S. presidential victory, which is likely baked into the market, also does not bode well for the fossil fuel plays.

This piece will determine which option, if any, is a less risky proposition for knife-catching investors.

## Cineplex: The struggles continue

As you may remember, I called the massive decline in Cineplex stock while shares were a dividend darling close to their all-time highs of around \$50. Today, shares have lost over 90% of their value and are now trading at \$5 and change. With another wave that threatens to shutter movie theatres once again, any hopes of going free cash flow positive over the near-term have been slashed.

Moreover, the promising pipeline of must-see 2020 films could be headed straight to stream, with rumours swirling that James Bond film *No Time to Die* could be sold to a streamer in a deal that could be worth around US\$600 million.

As this pandemic drags on, Cineplex's insolvency risks will rise. Although I hope Cineplex survives, I certainly wouldn't bet on the name until we have more visibility with this pandemic's endgame. Sure, Cineplex may prove to be severely undervalued here, but there's also a chance you could lose your shirt if the company runs into further financial pressures.

## Suncor Energy: Warren Buffett's been buying while everybody else has been selling

Warren Buffett has been quietly buying Suncor stock, but nobody seems to care. Suncor stock has dropped to \$15, at its long-term level of support.

While the fossil fuel industry is heavily [out of favour](#), the risk/reward to be had in a best-in-breed integrated play like Suncor is remarkably high and would encourage investors to follow Buffett while the stock trades at a steep discount to its book value. While oil will probably remain under pressure for the duration of this pandemic, it's important to remember that this pandemic won't last forever, nor will depressed oil prices.

If you think the oil sector could be in for one final boom before renewables take over the world, Suncor is a pound-the-table buy before it bounces off its \$15 support level. There's a fresh-cut 5.3%-yielding dividend to collect while you wait for the tides to turn in the oil patch.

### CATEGORY

1. Coronavirus
2. Investing

### TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:CGX (Cineplex Inc.)
3. TSX:SU (Suncor Energy Inc.)

## **PARTNER-FEEDS**

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

## **Category**

1. Coronavirus
2. Investing

## **Date**

2025/08/02

## **Date Created**

2020/10/28

## **Author**

joefrenette

default watermark

default watermark