The Time Has Finally Come to Buy Cineplex (TSX:CGX) Stock

Description

Cineplex (TSX:CGX) stock has been in a world of pain for years now. The perpetually falling knife has nicked most investors who've attempted to catch it over the years, whether we're talking about general turnaround hopes, Cineworld takeover speculation, or what's looking to be a short-lived reopening of movie theatres.

In the era of the insidious coronavirus, which puts movie theatres at ground zero of the crisis, it's hard to find meaningful catalysts that can propel Canada's beloved movie chain out of its funk. I've been incredibly bearish in many prior pieces over the years after having called the initial crash in the name back in the summer of 2017 when the stock was a Canadian dividend darling hovering around its all-time highs.

Cineplex: A horror movie of a stock

My, how the times have changed. Cineplex's shares have lost over 90% of their value, hurting contrarians who were reluctant to throw in the towel on the wealth destroyer that can't seem to catch a break. With a second wave of COVID-19 cases surging in various localities, Cineplex is at risk of shuttering its locations for at least another two quarters.

My original bear thesis on the name was that video streamers popping up from left, right, and centre would swoop in a steal Cineplex's lunch. That bear thesis holds to this day, as rumours continue swirling that they're looking to acquire the rights to big-budget box office hits that would have provided great financial relief to the ailing movie theatre companies. To add salt in Cineplex's wounds, the pandemic has pretty much resulted in a worst-case scenario.

Nobody wants to run the risk of contracting COVID-19 in a movie theatre, even though I'm sure there are proper safety precautions in place. Moreover, with a tonne of laid-off Canadians, it's hard to justify paying a premium price tag to go out and see a movie like *Tenet* if you're unable to truly relax with the worry that someone in the theatre could cough without a mask on their face.

Going to the theatres in a pandemic can be a rattling experience, even if the number of empty seats vastly outnumbers the filled ones. With a worsening second wave that could last months, I think there's no chance that Cineplex will be able to go cash flow positive by the second half of next year, especially if government-mandated lockdowns are put into place.

What's causing me to change my tune on Cineplex?

Valuation. The stock has fallen too hard, too fast. Everything that could have gone wrong went wrong for Cineplex. Immense business erosion can be expected to weigh for years after this pandemic concludes. But with a somewhat decent liquidity position, I think Cineplex can survive this crisis. The balance sheet is on unstable footing, but I just don't see a scenario where we rise out of this pandemic without a beloved Canadian entertainment company like Cineplex.

In due time, people will return to theatres. And Cineplex will be right back to diversifying its business with investments to beef up its lucrative amusements segment. While hope may be two or even three years away, I still think investors should not be overly pessimistic with the entirety of their portfolios.

Few things are more unpredictable than biology. A vaccine breakthrough could happen at any time. And if things aren't as gloomy as most expect, Cineplex stock is one of the names that could easily triple over the course of just a few trading sessions. That said, the name is also at risk of going insolvent in a worst-case scenario.

Foolish takeaway

The name remains a highly speculative bet, but one that I believe is worth taking if you're a young investor with disposable income. If you are going to take a chance on Cineplex, make sure you do so outside of your TFSA, because if the company folds and the stock implodes to zero, you're going to want to use those losses to offset gains elsewhere in your portfolio.

At one times book value, I think betting on Cineplex at a time of maximum pessimism isn't all a bad idea, even if the trend suggests that you're likely to lose money over the short term.

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