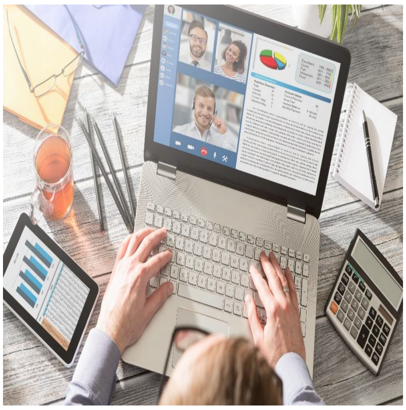

Could Cineplex Stock Soar Another 100%?

Description

Cineplex (TSX:CGX) saw its share price double in recent weeks. Contrarian investors with an eye for value wonder if this is the right time to add Cineplex stock to their portfolios.

Pandemic impact on Cineplex stock

The stock traded at $34 in early 2020, after rising from $24 in December on news the company had accepted a buyout offer from U.K.-based **Cineworld**.

Then the pandemic hit and changed everything. Investors watched in horror as the share price plunged to $9 in March and continued to slide. Cineworld backed out of the deal in June and Cineplex stock hit a low near $4.50 in the middle of October. Since then, bargain hunters started buying the stock and Cineplex current trades close to $10.

A quick look at the news in the past month would lead one to think the rally might not be justified. Canada is in the grips of a major second COVID-19 wave. New lockdowns closed theatres in major cities across the country and the measures could remain in place until the new year.

Why is Cineplex stock soaring?

Three major drug companies released positive COVID vaccine trial results in the past few weeks. The market sees a light at the end of the pandemic tunnel and hopes things will return to normal by the middle of next year. While that might turn out to be the case, the near-term outlook remains bleak.

Risks for Cineplex stock

Cineplex operates 164 theatres across Canada. The Canadian government just said it could take time for Canada to receive vaccines. The country doesn’t have adequate facilities to produce the vaccines, so it has wait until countries like the U.K. and the United States serve their own markets first before sending the next batch out to other buyers.

This could delay the removal of social distancing restrictions on theatres. As a result, Cineplex might not see a return to normal attendance until later next year.

Beyond the pandemic, Cineplex faces challenges that were already in place before the pandemic. Cineplex stock was once a dividend darling. The share price peaked in 2017 above $50 per share, but drifted lower over the past three years. The growth of streaming services puts the business model at risk as Canadians have to access significant movie content right at home. The pandemic provided a huge boost to the streaming industry — a trend that's unlikely to reverse course.

Aside from people deciding to make movie night a stay-home event, Cineplex also needs to have a steady flow of blockbuster films to attract people to the theatre. During the pandemic, many studios delayed the release of top films until 2021. In the case of **Disney**, the company decided to bypass theatres with its Mulan film and released it directly on the streaming service, charging subscribers an extra fee to access the movie.

If the business case justifies skipping the theatres in normal times, Cineplex could be in big trouble.

Upside?

Assuming theatres will be back to normal operations at some point in 2021, there is a chance Cineplex could bounce back. The big screen experience remains popular and movie creators will still want to tap that market. With the stock still trading at less than a third of its value earlier this year, more upside could be on the way.

Could Cineplex stock hit $20?

A double from the current level would likely require a new takeover bid. That's certainly possible. Private equity might step in to take advantage of the opportunity. A streaming giant might also decide to add the big screen venues to leverage relationships with subscribers to drive added revenue.

I wouldn't back up the truck. However, investors who think Cineplex will be back to normal operations in the first half of next year might want to start nibbling on the next pullback.

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