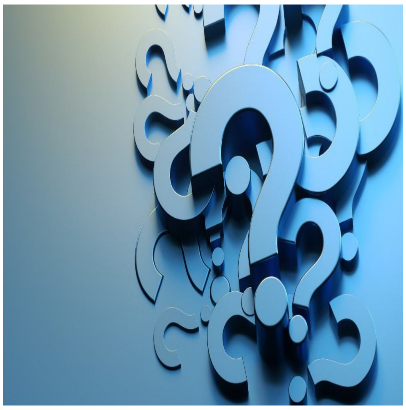

Could Cineplex (TSX:CGX) Stock Double Your Money in 2021?

Description

Cineplex (TSX:CGX) stock is down more than 70% this year, as the coronavirus pandemic has destroyed the company's business. For contrarian investors, buying the stock at such a low price could be an opportunity to lock in some great returns in 2021 — if the economy recovers. If that happens, and people are back in theatres like they were before the pandemic, Cineplex could be among the hottest stocks next year, as doubling or perhaps even tripling in value may not be out of the question.

But just because it's possible doesn't mean it's a likely scenario. Let's take a closer look at the health of the company's business today and if it's worth taking a chance on the stock.

Time is Cineplex's biggest enemy

Under normal circumstances, investors could just hang on to the stock long enough for its business to recover and wait out a rally. But these aren't normal circumstances, and there are no guarantees as to when things will go back to normal — assuming they ever do. And expecting that to happen in 2021 may be a bit optimistic. While there are multiple vaccines out there that can help slow or perhaps even stop the spread of COVID-19, it could be several months before that's even a realistic scenario.

In the meantime, Cineplex has to find a way to stay afloat with just $13.2 million of cash and cash equivalents as of Sept. 30. Not only does the company need to find a way to get its cash burn down (last quarter it used up $86.6 million to fund its day-to-day operations), but it also needs to worry about paying its bills. Its current liabilities of $427.5 million are more than four times the $102.5 million Cineplex reported in current assets as of the end of September.

The easy answer to this would be to issue more shares to keep the money coming in, but that can destroy the stock's value even further. And for investors who buy the stock today, it would mean waiting even longer for a recovery that may not ever happen. Relying on shares to raise money isn't a long-term solution and could quickly make the stock an even more unappealing buy.

Now isn't the time to be gambling on a high-risk stock

It's tempting to look at Cineplex's depressed share price and think that it could easily rally if the company gets back to operating near capacity or if the economy recovers quicker than expected. But there's no telling how things will play out over the next 12 months and if people will be rushing back to theatres once restrictions are lifted. And with Ontario recently announcing it will put in province-wide restrictions from Dec. 26 until at least Jan. 23, 2021, it's going to make the road even bumpier for Cineplex over the next month.

There's a lot of uncertainty ahead in 2021, and investing in a high-risk stock like Cineplex only doubles down on that unpredictability. There are much safer growth stocks investors can buy shares of today that won't put their portfolios in harm's way. It's possible that Cineplex could recover, and if all the stars align, 2021 may even be a great year for the company. But it's an extremely risky scenario to bet on, and that's why the stock isn't suitable for most investors.

CATEGORY

1. Investing

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1. Investing

Date
2025/06/29
Date Created
2020/12/26
Author
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