Cineplex Stock Lost +70% of Its Value in 2020: Why 2021 Doesn’t Look Much Better

Description

Investor interest in turnaround plays has increased of late. Highly effective vaccines, government stimulus, and favorable monetary stimulus measures make the turnaround bet seem like an easy one.

In the context of top Canadian turnaround plays, **Cineplex Inc.** (TSX:CGX) is one of the more widely discussed stocks. The appetite to time the bottom and pick up some of the great performers of the past at what looks like rock bottom prices is enticing. That said, there are a number of significant headwinds with this stock that could derail the turnaround story for Cineplex investors in 2021.

Patience — and a steady stomach — are needed for this stock

For companies like Cineplex, looking well past the pandemic is required if one wants to consider owning this stock right now. The reality is that even with the mass vaccine rollouts we see now, social distancing measures are likely to be in place for a while. Indoor spaces where patrons are typically seated close together are going to be scrutinized much more heavily. Theatres and other gathering places — Cineplex’ core business — may lag behind other sectors that may be allowed to open sooner.

For this reason, investors bullish on Cineplex’s ability to generate significant cash flow and pay the dividends it used to need to have a lot of patience. The pandemic is likely to leave its mark on 2021 as well, so those looking to jump in right now may have to deal with volatility in the near term. In my opinion, now is not the right time to jump into this stock, even if one believes the future will be bright for the movie business. There’s just too much uncertainty ahead.

Can Cineplex weather the storm in 2021?

The sentiment is mixed on this front. Fellow fool contributor Joey Frenette recently wrote: “Fortunately, Cineplex looks to have enough liquidity to weather the storm. It doesn’t have the best balance sheet in the world, but I think the stock is worth holding onto before a potential post-pandemic discretionary spending boom that could give major lift to Cineplex stock.” This is definitely true and worth noting.

Indeed, pent-up demand will be there in 2021. Patrons will want to go back to seeing a movie after dinner. Cineplex could receive a well-needed bump in top and bottom line performance in such a scenario. Accordingly, investors should factor this in.

However, Frenette aptly continued: “Unless you’re willing to see your investment get cut in half over the near term, though, I’d recommend looking elsewhere, as it remains one of the riskier options-like plays on the TSX these days.” I agree wholeheartedly. I think this is a stock with more downside than upside right now. There are simply too many risk factors that are in play with Cineplex to make this a sound investment.

Bottom line

Looking at 2022 and beyond, a big question remains for this company. Namely, to what extent will previous patrons come back in force to check out that new blockbuster? I tend to think we’re entering a new age of entertainment. Streaming is in and movie theaters are out. Accordingly, the safe thing for investors to do right now is steer clear of this stock. Indeed, trying to time the bottom could be painful, if 2021 is indeed a repeat of 2020.

My recommendation for those considering Cineplex right now is to wait and see how 2021 turns out. The risk of serious stock price depreciation far outweighs the benefits of timing the bottom. This stock is just too risky right now to touch, in my view.

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Date
2025/07/29
Date Created
2021/01/12
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