1 Canadian Stock That Could Be a Top Takeover Target in 2021

Description

Huge cash positions and cheap borrowing costs could lead to a wave of bids on top takeover targets in 2021.

How to tell if a stock could be a takeover target

Buying stocks solely on the hopes they will be takeover targets is risky, but the strategy might make sense if the company's share price appears cheap without the potential for a buyout premium.

The pandemic created some interesting opportunities. Stocks that took a beating because they operate in industries the pandemic hit the hardest, but have the potential to generate strong cash flow when the turmoil ends, might attract bids. These names could be interesting picks for private equity that would scoop them up and run the businesses until they recover and then take them public again to book large gains.

Stocks that also appeal to suitors from the same industry are worth considering. Consolidation heats up when strong players can use high stock prices and easy access to cash to remove competitors or integrate vertically.

Let's take a look at **Cineplex** (TSX:CGX) to see why it might be potential takeover target in 2021.

Could Cineplex see a bidding war?

Cineplex shareholders thought they had some nice gains in the bag at the start of 2020. The stock jumped from $24 to $34 per share near the end of 2019 when Cineplex agreed to a takeover offer from U.K.-based **Cineworld**. Then the pandemic hit.

Cineplex shares fell to $9 in March. In June Cineworld backed out of the deal, sending the Cineplex stock on an extended slide and eventually slipping below $5 per share in October. A rally on vaccine hopes has since pushed the share price back up to $11.

Risks?

Cineplex faced challenges before the pandemic. The share price sat above $50 in 2017. As streaming services multiplied the risk to the cinema market became more obvious. The problem remains in place now with film studios reducing the amount of time theatres get to exclusively show top films before they hit the streaming service. In some cases, the studios are simply bypassing the cinema completely.

That said, the theatre experience remains popular and the business can be a cash machine. People want to go out. The big screen can't be replicated at home and theatre buffs love to spend big bucks on oversized treats such as soda pop, candy bars and buckets of popcorn.

When the pandemic ends, the entertainment world should normalize. As long as theatres have content to attract visitors, cinemas should enjoy a nice rebound.

What is Cineplex worth?

The Cineworld deal priced Cineplex near $34 per share. It wouldn't be a surprise to see a private equity player or even a major streaming company look to buy the stock at a discount while the cinema industry remains in a slump.

Tech giants that now lead the entertainment industry might be attracted to the opportunity to grab Canada's largest movie theatre chain. The potential exists to leverage the subscriber base for the streaming service and drive new revenue on the most popular content.

In the event of a bidding war, Cineplex stock could potentially fetch $20 or better.

Even if Cineplex doesn't attract a buyout, the share price could drift back up to $15 or $20 over the next couple of years.

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aswalker