Why I'm Super Bullish on Cineplex (TSX:CGX) Stock at $11

Description

I've been one of the biggest bears on **Cineplex** (TSX:CGX) stock over the years. As you may remember, I called CGX stock's initial plunge back when the dividend darling was still near its all-time highs. I rang the alarm bell and warned investors of a drop, highlighting four reasons why it was time to break up with the name.

The pain continues for Cineplex stock

Fast forward to today, and it's hard even to remember the days when Cineplex stock was able to reward investors with above-average capital appreciation alongside a bountiful, growing dividend. The stock fell off a cliff, getting cut in half multiple times over, punishing those who dared try to catch the falling knife. Shares got clobbered over a span of two-and-a-half years, shedding over 91% of their value from peak to trough.

I've been quite the bear on the name before I changed my tune on the stock last year, following the coronavirus-induced meltdown in the stock. Even before the pandemic struck, Cineplex's business was up against it. The COVID-19 pandemic just turned an uphill battle into a full-blown crisis, as the company couldn't even fill its seats, even if it wanted to.

The horror movie of a stock could evolve into an underdog story

It's been a harrowing fall from grace for Cineplex, which still faces numerous profound headwinds that extend beyond those caused by this pandemic. This pandemic has only accelerated the continued rise of video streamers. That said, I believe we've already reached a turning point in the stock, as I noted in a prior piece, urging investors to buy the stock while it was trading at $5 and change.

"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." I wrote in a prior piece dated November 5, 2020. "At one times book value, I think betting on Cineplex at a time of maximum pessimism isn't all bad idea, even if the trend suggests that you're likely to lose money over the short term."

Today, COVID-19 variants of concern could threaten to cause a reversal of recent partial economic re-openings. Such a scenario will weigh heavily on Cineplex's coming quarters, as the top line is dragged towards zero, and investors' post-pandemic recovery hopes begin to fade.

Cineplex: The risk/reward tradeoff hasn't ever looked this good

Despite the near-term pressures up ahead, I think Cineplex stock still has a remarkable risk/reward tradeoff for those who believe that vaccines will end this horrific pandemic at some point over the next 18 months. Federally approved COVID-19 vaccines are in the process of rolling out. It'll be slow, but I think we will be headed towards some form of normalcy in due time.

And once we're in the post-COVID world, Cineplex stock is a name you'll want to own, as consumers look to ramp up their discretionary spending on the rich 2021 slate of films that people have been putting off for months. I think the first quarter of 2021 will be the last hailstorm for Cineplex. After that, it could be off to the races, as the company looks to bounce back from one of the worst crises in its history.

Please only bet what you're willing to lose on the name, though, as there's still a risk of future undiscovered COVID-19 variants that could render vaccines obsolete. While nobody wants to think about such a nightmarish and unlikely scenario, as an investor, you must to better manage your risks.

Stay Foolish, my friends.

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