Cineplex Stock Is Going Parabolic: Here's Why

Description

Shares of **Cineplex** (TSX:CGX) are going parabolic right now. Indeed, on Friday, shares jumped more than 13%.

I'm going to discuss why this was the case, and what investors can expect from the cinema chain moving forward.

Raising capital is extremely important right now

As with other theatre chains in the U.S., survivability is the key right now. Indeed, the stock prices of these companies are acting more like options on survivability right now. Accordingly, investors bullish on not only the survivability of Cineplex but its long-term outlook are buying in.

This past week, Cineplex announced the sale of $250 million in unrated (junk) bonds. The company initially said earlier this month it was planning to raise only $200 million by the end of the first quarter. Why the change? Well, Cineplex as able to secure a much lower yield than what was previously offered. Accordingly, it appears demand is running high for the junk bonds Cineplex is offering. This has stoked some speculation the cinema chain could raise more money to refinance its longer-term debts.

In fact, Cineplex received orders around five times the deal size. Additionally, those arranging this bond issuance saw around $1 billion in interest for the $250 million of loans provided. This furthers the argument additional debt refinancing could take place.

Many expect Cineplex to not only meet its debt covenants but be in a much better financial position to handle the effects of the pandemic in 2021. Investors are also bullish on the longer-term outlook for this company as well.

Investors increasingly bullish on economic recovery

The potential for a quicker-than-expected vaccination rollout has many investors bullish on stocks like Cineplex. Of course, Canada has been a laggard of late in providing vaccines. Currently, the U.S. is administering more vaccines daily than Canada has administered altogether.

That said, if and when this vaccine rollout picks up steam, we could see a rise in stocks in pandemic-sensitive stocks like Cineplex. Of course, it appears the market is already pricing this in, in anticipation of these catalysts materializing.

For now, this bond raise provides liquidity to get Cineplex by in anticipation of the loosening of pandemic-related restrictions. How Cineplex operates in the long term, with respect to streaming services eating away at this traditional market, remains to be seen. There will likely be some structural secular damage done as a result of this pandemic. However, investors appear to be hopeful a recovery to pre-pandemic levels is in the cards.

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Date
2025/08/24
Date Created
2021/02/22
Author
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