Cineplex vs. AMC: The Race for Meme Stock Supremacy

Description

The craze surrounding meme stocks such as **Cineplex** (TSX:CGX) and **AMC Entertainment** (NYSE:AMC) has captured the interest of retail investors. It appears that the growing popularity of Robinhood and other trading apps for the average Joe has inflated the valuation of these stocks.

Here's why I think that the party is about to get more fun.

AMC's valuation soars, but fundamentals never lie

At the beginning of this year, AMC stock traded at US$2 per share. In late February, this company's valuation skyrocketed, as its share prices crossed the US$20 mark. Currently, it trades around US$11, which is more than five times the price at the start of 2021.

For investors who are considering this stock as an investment option, I'd suggest proceeding with extreme caution. Indeed, retail investors might want to avoid this one for now, as its valuation appears to have no relation with the underlying financials.

AMC added US$1 billion worth of high-interest debt to survive the pandemic-induced economic turmoil. As per the latest earnings report, the company's corporate debt now clocks approximately US$5.7 billion.

Besides what may be an unmanageable debt burden, there's another big concern. AMC's current market cap is out of line. During AMC's best days, investors valued this company at approximately US$4 billion during the previous highs in 2015 and 2017.

However, in February, its valuation skyrocketed over the US$6 billion range. This dramatic rise of share prices appears to be even more bizarre, as its market cap remained below the US$2 billion mark consistently between late 2018 and early 2020.

CGX gets a liquidity boost; what does the market think?

Cineplex is a company operating in the same sector, with similar issues to that of AMC.

Cineplex's EBITDA margin represents a loss of 44%. Moreover, as per the latest earnings report, its outstanding debts stand at approximately $1.79 billion. The company's debt load has been increased of late, with a massive bond offering earlier this year.

While this debt issuance doesn't help the company's balance sheet, investors should note the company was able to reduce its yield substantially in this last debt issuance round. This indicates the market is much more bullish on Cineplex's track to recovery.

Yes, Canada has fallen behind other Western countries on the vaccination front. Cinema stocks like Cineplex are highly sensitive to the pandemic-related closures we've seen of late. This isn't a good thing.

However, I am convinced that if Cineplex theatres operate at full capacity from this year, it will have ample liquidity to not only survive, but potentially thrive in a reopened economy.

Bottom line

There's no doubt that both these stocks will be highly volatile trades during the short term. However, with the additional capital raised from blowout bond deals, it appears that Cineplex is now in a much stronger position.

Cineplex shares have done well, but haven't seen the massive parabolic swings AMC has in recent weeks. It appears investors are more level-headed on this stock, and rightly so.

That said, comparing the two companies, Cineplex looks like a heck of a lot better value right now.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice
2. investing
3. Stocks
4. value investing

TICKERS GLOBAL

1. NYSE:AMC (AMC Entertainment)
2. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice
2. investing
3. Stocks
4. value investing

Date
2025/07/20
Date Created
2021/03/19
Author
chrismacdonald