Could Cineplex Stock Hit $30 by the End of 2021?

Description

Cineplex (TSX:CGX) stock just hit its highest price in nearly a year. Investors who missed the huge rally off the October lows wonder if the stock is still undervalued and if more big upside is on the way.

Reopening play

Cineplex is Canada's largest theatre chain with more than 160 locations across the country. In most major cities, the theatres remain closed, but progress is being made on COVID-19 vaccinations, and the provinces are starting to unveil their reopening schedules.

That's great news for movie fans who love the theatre experience. It is likely that Cineplex will see strong visitor numbers once theatres are allowed to reopen, as people head out in a bid to normalize their lives. As more announcements emerge of theatre openings, Cineplex stock could catch an additional tailwind.

The share price bottomed out below $5 last fall. In recent weeks, it's surged from $12 to the current price near $16. Cineplex traded for more than $33 per share before the pandemic, so investors might think the stock is headed back to that level when theatres finally move back to full capacity.

Speculation could also drive the stock higher. The U.S. theatre chain **AMC** is a meme-stock favourite and just doubled in the past week. If traders move into Cineplex in the same way, the stock could soar.

Takeover potential

Cineplex traded for around $24 per share in December 2019 before it announced an agreement to be acquired by U.K.-based **Cineworld**. The news sent Cineplex shares above $30 where they traded until the arrival of the pandemic. In June last year, Cineworld walked away from the agreement.

Now that there appears to be light at the end of the tunnel, a new suitor could emerge to buy Cineplex. The business churns out a lot of cash flow when theatres are full. Movie goers fork out big bucks to see blockbusters on the big screen, and they spend a lot of money on treats. Popcorn, soda pop, and candy bars are all high-margin items.

Private equity, a major streaming company, or another theatre chain could all be potential buyers of Cineplex. In the event of a bidding war, the stock could potentially take a run at the pre-pandemic price.

Risks

Cineplex relies on movie studios to release popular films through theatres. The growth of streaming services in the past few years is one reason the stock lost half of its value before the deal with Cineworld.

Today, people have even more streaming choices for movies. At the same time, studios are cutting the time they give theatres to have exclusive showings before releasing the new films online. In some cases, the movies get streamed at the same time as they hit the theatres.

If the numbers work out that movie studios can generate more revenue by cutting out the theatre companies completely, the future for Cineplex and its peers could be bleak.

Should you buy now?

Traders could still make some money on Cineplex stock. It wouldn’t be a surprise to see it take a run at $20 in the coming weeks, and a surge back above $30 is certainly possible on a speculation frenzy.

Buy-and-hold investors, however, might want to search for other opportunities. The stock has had a nice run off the pandemic lows, and the theatre business was already in trouble before the pandemic. Challenges facing the sector have only increased over the past year.

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