



Reddit Stocks: Could Cineplex (TSX:CGX) Be Next?

Description

If you've been watching the **AMC Entertainment Holdings** (TSX:AMC) rally play out, you might be wondering which stock is next. Reddit stocks have been rising dramatically, with AMC having been the biggest winner of the bunch. Up 3,000% for the year, its stock has truly defied gravity.

Yet a stock that produces such astonishing gains is unlikely to continue producing them in the future. The higher a stock goes, the more money it takes to push it higher, which produces a kind of "diminishing returns" effect. AMC isn't quite so big yet that it can't continue outperforming, but 3,000% returns probably won't be happening anymore.

Enter **Cineplex** ([TSX:CGX](#)). It's a Canadian movie theatre chain that shares much in common with AMC. Like AMC, it saw its revenue decline precipitously in the COVID-19 pandemic. Also like AMC, it has the potential to regain much of its previous revenue when movie theatres re-open across North America. Canada's economic re-opening is taking longer than America's, but it will happen sooner or later. In such a scenario, Cineplex — as a business — has as much to gain as AMC does. But does that mean that its stock has as much potential?

Why Cineplex might be next

There are some reasons to think that Cineplex could go on to become the next AMC. For one, it's a movie theatre company that [lost a bunch of money in 2020](#) and is almost guaranteed to recover. For another, it's a Canadian small-cap stock similar to **BlackBerry**, which became a meme stock in its own right. Finally, it is a company that is well known to many Canadians, giving it enough name recognition to get noticed. These factors *could* lead to Cineplex becoming the next AMC. However, it's more likely that it will not, as I'll explain in the next section.

Why it might not

Ultimately, there are far more reasons for Cineplex to not become the [next big Reddit Stock](#) than for it to do so. The three main ones are as follows:

- Reddit does not appear to choose its “favourites” by sector. The four biggest meme stocks of the year have been **GameStop**, AMC, **Nokia**, and BlackBerry, and they are not in the same industry. BlackBerry and Nokia *used to be* in the same industry, but BlackBerry exited smartphones. For the most part, sharing an industry with a meme stock has not been a predictor of another stock joining the club.
- Investors already have AMC. To the extent that Reddit investors believe in the movie theatre industry, AMC serves their needs. Why do they need another stock like it, apart from diversification (which is better achieved by buying ETFs than by holding two individual stocks)?
- Cineplex doesn't have anywhere near AMC's name recognition. As I said above, Cineplex does have some name recognition. However, this recognition is limited to Canada. Americans don't know the company. For this reason, Cineplex is unlikely to be recognized as a meme stock by the majority of Reddit — although perhaps it could become a favourite of some Canadian subset of meme investors.

Given the facts outlined above, it is unlikely that Cineplex will become the next AMC. There are enough reasons to believe that it *could* do so but more reasons to believe that it won't. Remember: plausibility isn't the same as probability. The odds that Cineplex will become the next AMC just aren't very high.

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1. Coronavirus
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TICKERS GLOBAL

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

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