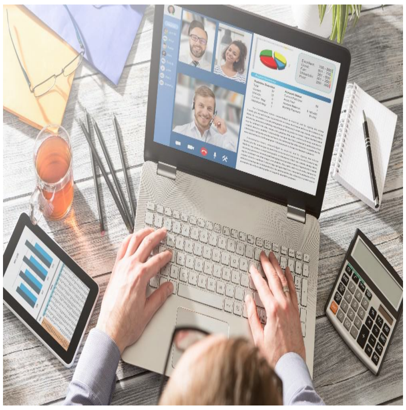

AMC Entertainment vs. Cineplex (TSX:CGX): Which Is Better?

Description

AMC Entertainment (NYSE:AMC) stock just keeps on trucking. Up 0.81% over the last five trading days, it is still producing positive gains. That being said, the gains have slowed down a lot. At one point this stock was delivering high double-digit single-day gains, now the returns are much more tepid.

Rigtht now, AMC shares have probably realized most of the gains they're going to realize. There is the possibility that shorts will have to cover and send the stock higher, but absent that, we've probably seen the lion's share of the gains this stock will deliver in 2021.

That doesn't mean that there aren't similar stocks with similar potential, though. The Canadian movie theatre chain **Cineplex** (TSX:GGX) is quite similar to AMC, both in terms of its business model and its high short interest. It doesn't currently have an army of Redditors backing it, but other Canadian stocks like **BlackBerry** have achieved that distinction.

It appears that Cineplex at least holds the potential to become the next AMC. In this article, I'll explore the similarities and differences between Cineplex and AMC, to help investors decide which is better for their goals.

Valuation

Cineplex beats the pants off AMC in terms of valuation. For the trailing 12-month period, AMC's valuation ratios were:

- EV/sales: 89.
- Price/sales: 24.7.

Meaningful P/E and price-to-book ratios for AMC can't be computed because earnings and shareholder equity are both negative.

For Cineplex, the comparable ratios are:

- EV/sales: 16.3.
- Price/sales: 5.3.

Again, P/E and price-to-book ratios can't be calculated for this stock, because earnings and equity are both negative.

So it looks like Cineplex has a far more modest valuation than AMC does. That would tend to support the idea that it's a better investment, all other things the same. All other things aren't the same, though. Both of these companies need to get through some serious hurdles before their revenue and earnings recover. So it's within the realm of possibility that AMC is more reasonably valued than Cineplex factoring in future potential.

The short squeeze factor

In the previous section I outlined a "valuation" based case for Cineplex, arguing that it has a more modest price tag than AMC. Those arguments may have been immaterial, though, because people buying AMC aren't looking at valuation. Rather, they're hoping to profit off a short squeeze scenario where shorts have to cover, sending the stock price higher.

That certainly could happen to AMC, given its enormous short interest. And it could happen to Cineplex too. According to Fintel.io, about 20% of CGX's volume is short. That's enough short volume that if all shorts covered on the same day, they would noticeably boost the stock price.

With that said, these shorts have a very long time to cover their positions, so don't expect a squeeze any time soon.

Foolish takeaway

2021 has been a great year for movie theatre stocks. AMC has soared to extreme new highs, and Cineplex has delivered pretty impressive gains as well. Overall, both have been pretty good COVID-19 recovery plays.

If I had to invest in one of them now, I'd probably go with Cineplex, because it appears that less of its future growth is already priced in.

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