



My 1-Month Growth Prediction of Cineplex (TSX:CGX): 100% or 0%?

Description

Do you know why **Cineplex** ([TSX:CGX](#)) stock surged 5.7% today? You would be happy to know the short interest in the stock surged significantly, and it seems like Redditors are about to begin the game of the short squeeze. Over 1.4 million Cineplex shares were [shorted](#) in mid-June — almost double Cineplex's average trading volume of 796,000. This means there is scope for a short squeeze. Are you confused? Just sit back and pay full attention for the next 10 minutes to understand how Cineplex stock can surge 100% in a month.

Cineplex: A juicy target for a short squeeze

Have you heard what happened to **AMC Entertainment** ([NYSE:AMC](#)) stock? AMC is the Cineplex of the United States. They both run theatres across the countries. The onset of streaming services like **Netflix** brought high-quality entertainment to the home. Still, the theatres have survived on account of the user experience of surround sound and delicious, overpriced popcorns.

But the pandemic encouraged many movie buffs to convert a room in their home into a theatre. So, the question of whether the reopening of theatres will bring back the crowd looks dicey. Theatres will likely see crowds only because people are fed up staying home. It will take Cineplex years to come out of the \$230.4 million loss incurred in [2020](#), especially when you know its normal annual profit (2019) is around \$3.5 million.

Such businesses are the perfect bait for a short squeeze.

Hedge funds make money from such dying businesses by shorting the stocks. This means they expect the stock price to fall. So, they borrow these stocks and sell them with the hope of buying them at a later date for a lower price. The price gap is hedge fund profit/loss.

Redditors' gameplay

Hedge funds are not wrong. They are just expecting the most obvious outcome. And it is this vulnerability that Redditors seek to take advantage of. They start buying stocks like AMC and Cineplex in herds, thereby inflating their stock prices.

Those who short the stock have no other option but to buy it at a higher price to square up their trade. First, Redditors buy the stock and inflate the price and then force hedge funds to buy the stock from them at a higher price.

All this may look illegal, but the short squeeze is perfectly legal. This whole short squeeze game pushed AMC stock up more than 100% in one week and up another 130% in the second week. There's no point buying AMC stock at its current levels.

How to make money from Cineplex

The month of July is important for Cineplex, as it could see some herd buying from Redditors. It surged over 5% today and 9.5% in a week. I would suggest you divert 2% of your portfolio to Cineplex today. If the Redditor rally begins, you will have no buying window, as it will rally by leaps and bounds.

Do not spend more than \$16.5/share on Cineplex; otherwise, it will be a lost bet. If Cineplex repeats the AMC rally, it could surge 100% by July end, and that is when you [book profits](#). But if my prediction goes wrong, the optimism around the reopening of theatres will keep the stock hovering above \$15.

Cineplex stock is a 0% or 100% growth stock. It is a buy only in hopes of a short squeeze. Give your portfolio high exposure to fundamental stocks with long-term growth potential to balance the risk from Cineplex.

CATEGORY

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

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