Cineplex Stock Could Surge Once the 4th Wave Peaks

Description

Cineplex (TSX:CGX) stock has suffered quite a massive fall from grace. It's been painful for those investors who held on all the way down, and while it's tempting to throw in the towel after one of the worst years in the record books, I think it may actually be a great time to put on your contrarian hat.

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It's a long way up. With shares of the Canadian movie theatre and entertainment kingpin now off over 77% from its 2017 all-time high, a time I urged investors to sell, it seems like the battered and bruised stock will never recover to see the mid-$50 levels again, at least without a reverse split.

An aggressive reopening play on the TSX — and volatile as ever

The COVID-19 pandemic remains as uncertain as ever, with the horrific Delta variant causing outbreaks across the globe. And with Lambda and other variants of interest that could grow to become variants of concern, betting on the most aggressive of reopening plays like Cineplex still comes with a high magnitude of risk that's far higher than most investors can handle.

There's no shame in walking away from a soured investment if you can't handle the volatility. Heck, Warren Buffett did so with airline stocks earlier last year. But for those with a diversified portfolio who can handle extreme levels of volatility (think double-digit moves as the "new normal"), I think it makes a tonne of sense to do some buying as Cineplex looks to start climbing off rock bottom.

The road ahead will not be easy, especially if more lockdowns loom. Although people are starting to shrug off the pandemic because they've been vaccinated, I do think it's unwise to think that the pandemic isn't capable of taking a drastic turn for the worst and that Cineplex is in the clear.

The road ahead hasn't looked this bright in nearly two years

Things have slowly returned to semi-normal over these past few weeks as Canada wound down from its horrific third wave of COVID-19. Vaccination rates are rising by the day and the nation finds itself in an enviable spot as far as vaccination rates are concerned. Indeed, Canadians feel safer as they head back to activities that they used to enjoy before the pandemic. Many people have enjoyed games at the local Rec Room and films at the local Cineplex for the first time in a while. It's the first taste of normalcy in over a year and a half. And this taste won't go away anytime soon.

Moving forward, Cineplex has a path to much higher levels. But that doesn't mean there won't be another potentially disastrous pullback en route to higher highs. New films, including must-watch blockbuster hits like James Bond's *No Time to Die* will draw in huge crowds if localities keep their doors open in what could be an imminent fourth wave of COVID-19.

Regardless of what happens next, there's value for long-term investors to be had in Cineplex at these depths.

The recent movie slate has been quite modest, and straight-to-stream hits like *Black Widow* may have seen their box office numbers cannibalized by options to stream the film. In the era of COVID-19, muted box office results and sub-par movie slates are to be expected. But over the extremely long term, once the COVID-19 threat has faded, Cineplex could benefit from pent-up demand for its very social form of entertainment, which, I believe, is irreplaceable.

So, if you're committing to hold shares through volatility over the next three years, I think Cineplex stock is a buy.

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