AMC Entertainment (NYSE:AMC) Stock: What Bears Don't Understand

Description

AMC Entertainment Holdings (NYSE:AMC) has been one of the best-performing stocks of 2021. Up 2,250% year to date, it has solidly outperformed every relevant benchmark. If you'd invested $1,000 in AMC at the start of the year and held to today, your position would be worth more than $20,000. That's an impressive result.

Yet some commentators remain unconvinced. Arguing that AMC stock is a fad destined to run out of steam, they counsel their readers not to buy. Their case relies on the fact that AMC's fundamentals aren't very good and don't justify the stock's current price.

It is true that a conventional valuation model would not support the prices AMC stock trades for in the market. However, commentators who dwell on this point are missing what the "AMC Apes" are getting at. In this article, I will outline the bull case for AMC stock — while stopping short of endorsing it myself — to show that AMC perma-bears are not understanding what bulls are getting at.

The matter of fundamentals

Before going any further, I should get one thing out of the way: AMC's fundamentals *are* pretty bad. The bears are right about that one thing. Among other things, AMC stock boasts

- Negative earnings;
- Losses stretching back to way before the COVID-19 pandemic;
- Negative equity (more liabilities than assets); and
- High valuation multiples.

That's not to say that *all* of AMC'S fundamentals are bad. The company did boast a strong cash position, smaller losses, and a 2,250% revenue-growth rate in its most recent quarter. But for the most part, AMC bears are right that the stock's fundamentals are poor. Why then has the stock's price gone up so much, defying the bear's predictions?

Why the short squeeze could happen

Stocks can go up (or down) for any number of reasons. Stock prices are ultimately a function of supply and demand; anything that causes demand to increase more than supply will cause the price to rise. Among other things, this can happen because of

- Good publicity;
- Insider buying;
- Stock buybacks;
- Social media mentions; or
- Short sellers covering their positions.

Any one of these factors can cause a stock to rise. If you look at the Canadian meme stock **BlackBerry** (TSX:BB)(NYSE:BB), for example, it has more than doubled in price several times this year, despite its earnings releases being less than impressive. The stock always had a group of loyal fans, but this year, it soared to highs that nobody ever anticipated. Put simply, the stock moved based on factors other than fundamentals.

It's a similar story with AMC. The stock has attracted a following because of a factor not related to fundamentals — namely, high short interest.

AMC stock is known for its high level of short positions as a percentage of float. Various financial data providers report the percentage as

- 18.7% (MarketBeat);
- 18.76% (Ortex); and
- 18.76% (Yahoo! Finance).

This is much higher short interest than the average S&P 500 stock, which has a 1.5% short percentage of float. And the short interest is high enough to produce an appreciable increase in AMC's price if shorts all start covering at the same time. If their margin interest starts piling up, or if they all panic because of a sharp increase in the stock price, that could very well happen. So, the AMC short thesis is at least credible.

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