Cineplex Stock: When Will This Unloved TSX Stock Turn a Corner?

Description

The **TSX Index** may have escaped the turbulent start to Fall 2021 without so much as a 10% drop, but that doesn't mean investors should get too greedy just yet. Undoubtedly, a lot of pundits have suddenly turned bullish now that we've gotten a small glimpse of recent third-quarter earnings. Still, there are still risks, and nothing is stopping broader markets from reversing as fast as they bounced back over the past few weeks. Indeed, for those hoarding cash on the sidelines, it's tough to get discounted names at a desired magnitude.

Fortunately, there are still plenty of quality Canadian stocks that haven't participated to the full extent as the S&P 500 or TSX Index in this latest market rally. There is baggage that could weigh them down, but should they be able to better handle such baggage, they may very well be able to make up for lost time, following in the footsteps of the indices higher.

In this piece, we'll have a look at one Canadian stock that is still discounted heavily, even as markets get ready to rip to new highs. While there are modest concerns heading into a fourth quarter that's sure to be filled with unknowns, CGX shares look to have a risk/reward scenario that may be favourable from a long-term perspective.

Looking to the depths of the TSX for deeper value

Without further ado, consider shares of **Cineplex** (TSX:CGX), an unloved Canadian movie theatre firm that remains on sale going into November. Indeed, shares of the entertainment powerhouse reek of value, but with profound headwinds facing them in the fourth quarter, many may be inclined to view CGX stock as more of a value trap than a deep-value play capable of leading to excess risk-adjusted returns.

While hard-hit names like Cineplex may not be everybody's cup of tea, given the stock's ridiculously volatile nature and uncertainties surrounding its medium-term industry outlook, I still think it's worth going against the grain for. Especially for younger, venturesome investors who would have otherwise speculated on a high-flying growth stock with a price-to-sales multiple north of 40 and zero in the way of earnings.

Cineplex faces profound uncertainty

The road ahead for Cineplex remains cloudy. The coronavirus pandemic isn't over yet, and as long as the virus continues spreading globally, there will always be a risk of a mutation that could lead to a variant of concern. It's this risk that makes it challenging for Cineplex to fill its seats with bums. While vaccine passports and an improving movie slate can help beckon patrons back into the local Cineplex, the real question on the minds of investors is whether or not there will be a COVID wave worse than Delta. If there is, Cineplex could face even more pain, as the reopening trade goes up in a poof of smoke.

On the flip side, if Canada can keep things relatively normal en route to an endemic, whenever this may be, Cineplex can hang in there and live to see better days. Unfortunately, nobody knows what's up next with the pandemic. While uncertainties are perceived as negatives by investors, positive surprises are still possible. And for that reason, CGX stock seems like a cheap option-like play on a transition towards pre-pandemic levels of normalcy.

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