2 TSX Growth Stocks to Recoup 20% Downside From Cineplex (TSX:CGX)

Description

Cineplex (TSX:CGX) stock took a plunge of 20% since its abrupt surge in June 2021 when meme stocks were trending. Its American counterpart **AMC** had witnessed a 500% surge, as Redditors played a game of short squeeze to make some quick bucks. Cineplex shareholders got caught in this wave and made an investing mistake. If you'd purchased this stock anywhere above $16, you are sitting on a 17-20% loss.

Should you sell Cineplex stock at a loss?

Now, Cineplex does have growth potential, but this growth is a recovery from the pandemic. The stock surged 13.5% from its December 2021 low. That is a recovery from the 25% dip in November 2021. Otherwise, if you look at the company's fundamentals, it is in a business with flat growth. A $16 entry point is not worth holding. Let me dive into the fundamentals to see the best outcome for Cineplex.

Cineplex reported a $33.6 million net loss in the third quarter, despite growing its revenue 310% year over year to $250.4 million. This 300% revenue growth is temporary, as it is fueled by pent-up demand during the lockdown. This was the quarter when Cineplex reopened all its theatres across Canada.

If you go back to the pre-pandemic numbers, Cineplex operated at a 14.9% margin in the third quarter of 2019 on $418.4 million revenue, which is 67% above the revenue reported in the third quarter of 2021. At that time (2019), Cineplex shares were trading in the $22-$25 range. 2019 was when over-the-top (OTT) platforms were not as popular as they are today. Production houses still preferred theatre releases over OTT releases.

In the best-case scenario, Cineplex could reach its 2019 levels. Even if the stock reaches the $22 stock price, that represents a 37% upside on a $16 entry point. In the worst-case scenario, there could be a 30% downside to $11. The 37% reward is not worth the 30% risk. You could sell Cineplex at a 20% loss and put that money in stocks that could help you recoup your loss and grow further.

Two stocks to recoup 20% downside from Cineplex

To recoup a 20% loss, you need stocks that can grow more than 25%, after considering the transaction cost of buying and selling shares. The below stocks have the potential to give you the kind of growth you need:

- **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX)
- **Shopify** (TSX:SHOP)(NYSE:SHOP)

Descartes Systems

Descartes Systems is in the midst of a supply-chain crisis. A crisis like this is an opportunity for Descartes, as it helps companies optimize their logistics and supply chain. Moreover, the industrial pent-up demand is driving the need for supply chain management solutions. In the last three years, Descartes stock surged 59%, 31%, and 40%, respectively, as supply-chain issues surrounded industries. 2019 saw a supply chain shift from the United States-China trade war, followed by the pandemic in 2020 and demand recovery in 2021.

If you'd invested $5,000 in this stock three years back, you would now have $14,600. Descartes still has a 20-30% growth potential. It is down 16% from its December 2021 high of $112. While the stock can make a new high in 2021, I take a conservative approach and expect its December high to become its new normal. That is 26% upside — the growth you need to recoup losses from Cineplex. Any further growth is a reward for taking the bold decision of booking a loss.

Shopify

Another growth stock on my list is e-commerce giant Shopify, which made headlines during the pandemic and ballooned to unprecedented levels. The e-commerce stock has dipped 35% from its November 2021 high, as the Santa Claus rally didn't pan out the way investors expected. Tech stocks worldwide saw some major profit booking. The dip comes partly because pandemic-induced growth has faded and partly because the stock outgrew itself in the wake of the e-commerce boom.

But this doesn't mean growth is over for Shopify. The company reported 49% revenue growth in the latest quarter. The stock could see weak numbers throughout the first quarter due to seasonal weakness. But the stock could see growth return in the second quarter.

CATEGORY

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2. Investing

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:CGX (Cineplex Inc.)

4. TSX:DSG (The Descartes Systems Group Inc)
5. TSX:SHOP (Shopify Inc.)

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Date
2025/07/21
Date Created
2022/01/19
Author
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