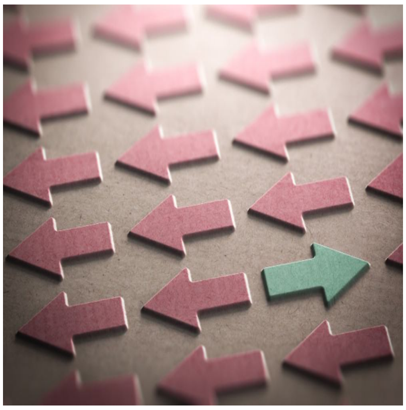

Shopify and Cineplex Stocks Are Down — But Absolutely Not Out

Description

Shopify (TSX:SHOP)(NYSE:SHOP) and **Cineplex** (TSX:CGX) stocks are among the most beaten-up of names over the past year. Undoubtedly, the former market darlings have endured a painful fall off the podium. Though it's unclear as to what their recovery trajectories will look like, I do think that new long-term investors with investment horizons of 10 years or more are likely to do well by placing a contrarian bet on either name as they attempt to find their footing after their worst plunges to date.

Indeed, things have gone from bad to worse for e-commerce kingpin Shopify and COVID-hit movie theatre firm Cineplex. With the markets staring at a recession in 2023, shares of SHOP and CGX could easily descend even further from here. Indeed, an 80% decline from peak to trough is excessive. But it doesn't mean further downside can be ruled out, especially if a company's managers don't take steps to steady the ship as it approaches even harsher waters.

Shopify and Cineplex stocks are down more than 80%, but don't count them out

At this juncture, macro uncertainties could not be greater. The U.S. Federal Reserve is on a mission to combat the world's high inflation. And it's shown a willingness to inflict pain on the wallets of consumers. Ultimately, hurting the pocketbooks of everyday consumers may be the only path out of the inflationary surge that's grown to become something far more insidious than "transitory."

As a contrarian investor, it's never a good idea to buy based on hope, especially with a company that's under so much negative pressure. Though the task of evaluating a company whose shares have sunk over 80% is challenging, it is possible for those willing to roll up their sleeves.

Let's take a brief look at Shopify and Cineplex stocks to see which fallen star is capable of shining brightly at some point over the next three years.

Shopify

Shopify went from Canada's most valuable company to a firm that can't seem to catch a break. Though recent quarterly results have come up short (Shopify missed on earnings per share for three out of the last four quarters), I don't think you can point the finger at Shopify's managers. CEO Tobias Lütke already acknowledged that his firm over-hired amid the pandemic-fueled e-commerce boom and had no choice but to resort to layoffs.

With consumer sentiment poised to sink ahead of a recession, headwinds facing e-commerce retailers and platform providers could easily intensify. Further, the market's appetite for high-multiple growth stocks that are barely profitable will likely not return anytime soon. Not as rates continue to rise.

Shopify is doing the best it can to move forward on the growth path. The company's move into physical retail (point-of-sale) is a sign that the firm is still hungry. However, with such powerful headwinds facing it, don't expect any of Shopify's efforts to pay off over the near-term. Shopify stock is a long-term growth story. At the company-specific level, Shopify has not really taken a turn for the worse. The company just found itself in the face of unprecedented headwinds with a valuation that was probably way too frothy to begin with.

At 7.5 times price-to-sales (P/S), I do view Shopify as a reasonable multiple to pay for a firm capable of growing at an above-average rate over the next 10 years.

Cineplex

Cineplex is another painful stock weighing down portfolios. At $8 and change per share, it seems like there is no bottom to speak of for this name.

As shares inch closer to October 2020 lows, many investors may be expecting that things will go from bad to worse as consumers cut back on discretionary expenditures. Undoubtedly, pandemic lockdowns were essentially a bear-case outcome for Cineplex. However, with an "open" economy and a relatively affordable entertainment offering for Canadians, I do think the bearishness has become overblown.

National Bank recently delivered an upbeat note on the stock, noting that momentum could "reboot" in the fourth quarter. Such upbeat commentary is encouraging for a stock that can't catch a break. At 0.5 times price-to-sales (P/S) and 4.8 times price-to-cash flow (P/CF), Cineplex doesn't need a heck of a lot to move the needle higher on the stock.

CATEGORY

1. Investing
2. Stocks for Beginners
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:CGX (Cineplex Inc.)
3. TSX:SHOP (Shopify Inc.)

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Date
2025/08/23
Date Created
2022/10/26
Author
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