Buyer Beware: This Is One of the Most Shorted TSX Stocks

Description

Investing in companies with high short interest is inherently risky. Indeed, the 2021 really with some of the most shorted meme stocks that surged ended in pain for most investors. For growth-oriented traders who played these rallies correctly, however, it was certainly a more interesting time.

It's difficult to time any such investment. Accordingly, most investors lost their shirts trying to gamble on the incredible spikes in meme stocks in the past.

But it's sure fun to watch. Accordingly, one of the key metrics many investors focus on right now is short interest. At the time of writing, in terms of all Canadian stocks, the fourth-most-shorted stock in the market right now is **Cineplex** (TSX:CGX). For good or bad, that's the facts.

Let's dive into whether or not investors may want to gamble with owning such a stock like this.

Cineplex is rising

Cineplex stock is on the rise. Over the past month, shares of Cineplex are now up approximately 25%.

Is this due to short-squeeze interest, or simply a fundamental rally? That's the question many investors clearly pose right now.

The largest film exhibition company in Canada, Cineplex is Canada's version of **AMC Entertainment** (NYSE:AMC). We all saw what took place in 2021, with calls for similar rallies north of the border. Thus far, such rallies haven't materialized.

That said, this significant surge off of the September 52-week low is notable. Today, Cineplex is up another 5%, suggesting that perhaps there's more room to run if this momentum-driven rally can continue. Indeed, for investors looking for stocks with momentum, Cineplex certainly checks this box right now.

Fundamentals remain strained

Momentum is great, and there's certainly going to be a cohort of investors that wants to jump on these near-term rallies. That said, from a fundamentals perspective, Cineplex stock is one that could scare off investors.

With a market capitalization of around $660 million and $1.8 billion in debt, this is a company that's overburdened with a pretty unfavourable balance sheet. Indeed, a debt-to-EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio of six times is something most investors want to steer clear of.

Making matters worse, Cineplex's debt-servicing costs have risen significantly. Additionally, the company's profitability is nowhere near what it used to be before the pandemic.

What could make a positive impact on Cineplex's balance sheet is a $1.24 billion payout tied to the failed Cineworld acquisition. However, Cineworld has filed bankruptcy, and the payment may never come.

Investors seem to be banking on this settlement being completed, but I don't think it's a done deal by any means. For now, this cinema operator's fundamentals make this a highly speculative stock, to put it nicely.

Bottom line

Cineplex stock is one that certainly carries its risks right now. I'm not investing in this stock simply because I think it's too risky at this point in time. That said, there's a clear case to be made that this could be among the stocks that catches fire with retail investors.

Thus, it's an invest at your own risk kind of moment. But for investors looking for a compelling trade in this environment, Cineplex sock certainly seems like it checks the boxes right now.

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