Canada Goose (TSX:GOOS) vs. Cineplex (TSX:CGX): Which Is the Better Turnaround Stock?

Description

Many companies have been negatively impacted by the pandemic. Retailers, with significant brick-and-mortar exposure, and entertainment venues have been hit particularly hard. These types of businesses, which benefit from large volumes of people passing through the same physical location, suffered as traffic practically disappeared for much of the spring season.

As economic activity slowly returns to normal, some of these businesses will thrive. Unfortunately, some of these businesses may continue to struggle if COVID-19 infection rates begin to increase again or if social distancing restrictions remain in effect for longer than expected.

To understand how two hard-hit Canadian companies in the retail and entertainment spaces might fare, let's compare **Canada Goose** (TSX:GOOS)(NYSE:GOOS) and **Cineplex** (TSX:CGX).

Canada Goose

Canada Goose is the famous Canadian parka maker that has become a global brand. The company has made a name for itself selling premium, and high-priced, winter jackets. Canada Goose has slowly branched out into other lines of apparel. However, jackets are still what the company is primarily known for.

Canada Goose stock was on fire in 2018. The **TSX**-listed shares reached an all-time high above $90 in November 2018 before beginning a gradual descent. This descent continued through March 2020, when the stock briefly traded below $20.

Retailers around the world closed in March and this was difficult for Canada Goose. Over the past few years, Canada Goose has been pursuing a vertical integration strategy and has opened over 20 brick-and-mortar stores around the world. Unfortunately, 2020 was not a great year for brick-and-mortar retailers.

However, Canada Goose's overall gross margins were over 60% during the last fiscal year. These are impressive margins that should allow the company to drive significant profitability on increasing volumes as luxury consumer spending and in-person shopping picks up again.

The brand recognition and ability to sell products via e-commerce channels should help the company remain relevant if social distancing guidelines remain in place, and in-person shopping remains muted, over the next year.

Cineplex

Cineplex is the largest movie theatre chain in Canada. The company also owns some digital commerce assets like CineplexStore and amusement facilities such as The Rec Room and Playdium. Cineplex is in the business of providing entertainment experiences in a physical environment. This business model completely collapsed during the pandemic.

Cineplex is also suffering from the effects of the failed $2.8 billion takeover by Cineworld. Cineplex announced that it will be suing Cineworld after Cineworld terminated the deal — a necessary move. However, it will be a distraction at a time where Cineplex would prefer to focus on successfully re-opening theatres across the country.

Cineplex owns and operates over 160 movie theatres under various brands. The theatre business is an asset-heavy business. Cineplex paid over $150 million in rent payments in 2019. While theatres have reopened in many parts of the country, social distancing requirements significantly limit audience sizes.

Unless social distancing measures ease, this strain will continue to put downward pressure on Cineplex's share price. Unlike Canada Goose, Cineplex can't easily pivot to e-commerce.

Takeaway

Canada Goose and Cineplex can both potentially outperform going forward. Both companies will significantly benefit when social distancing guidelines are eased. However, if social distancing guidelines remain in place longer than expected, Cineplex is likely to suffer more, given the company's larger and more expensive asset base.

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