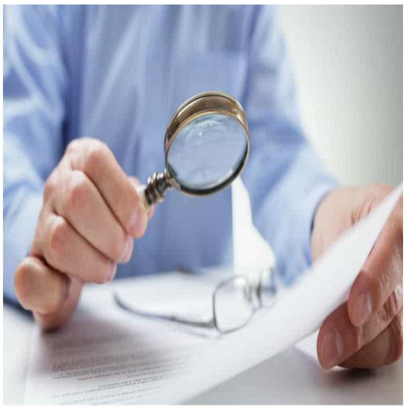

Don’t Overlook Cineplex (Yes, You Read That Right)

Description

We’ve seen volatility calm down somewhat in recent months. However, certain stocks may have only taken a breather at this point. More storminess may be on the horizon for specific sectors. In this article, I’m going to highlight the bull and bear case for Canadian cinema chain **Cineplex** (TSX:CGX). This is definitely a company to keep on your watch list.

Let’s start with the positive. Cineplex was set to be acquired for $2.8 billion this year by U.K. company Cineworld (for $34 per share). This deal has since fallen apart. Recently, Cineplex has traded below $10 a share. The company’s market capitalization has dropped below a billion dollars. The company is now roughly trading at a 75% discount to its previously agreed up acquisition price. That’s one heck of a deal — value investors should rejoice.

Of course, we know that stocks don’t just lose three-quarters of their value almost overnight for no reason. There are many risks that have manifested themselves since the takeover offer was accepted. These have fundamentally changed the dynamic of this sector. That said, a doubling of Cineplex’s share price is certainly not out of the question for those with a bullish outlook of how the next 12 months may unfold.

The bull case

The best case is if a vaccine is found (and approved) and the economy is reopened fully. All social-distancing measures will be relaxed or eliminated. Content producers can return to releasing movies on the big screen rather than on streaming platforms. In any such scenario, one may look back on this buying opportunity as one of the greatest times to buy Cineplex stock in history.

The bear case

Of course, even those with the most bullish outlooks must factor in the probability that we could be living in a “new COVID-normal” world for much longer. More downside could be on the near-term horizon.

Additionally, the degree to which the big screen has lost its lustre among studios and content producers remains to be seen. If streaming companies make it more profitable for content producers to release new content on such platforms and skip the theatre altogether (on a large scale), we could indeed be witnessing the beginning of the end for this sector.

Such an outlook would obviously warrant yet another significant share price drop, particularly if we see worst-case scenario manifest itself with respect to this pandemic. The longer this pandemic rages on, the larger the impact on Cineplex’s cash flows. Continued stress on the company’s balance sheet due to the high fixed costs of this business could be problematic from a liquidity and solvency standpoint.

Bottom line

My view is that Cineplex is likely still too volatile of a stock for investors on either side of the sentiment spectrum to invest in right now. That said, for those with high levels of conviction on way or another, putting a small amount of money to work in a stock like Cineplex could reap big rewards very quickly, as long as you’re on the correct side of the trade. At the very least, keep this company on your watch list.

The Foolish thing to do, however, is to either steer clear of this stock for now or edge one’s equity position accordingly. Playing the long game with stocks is the best way to grow one’s wealth. Volatility equals risk, so invest accordingly.

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