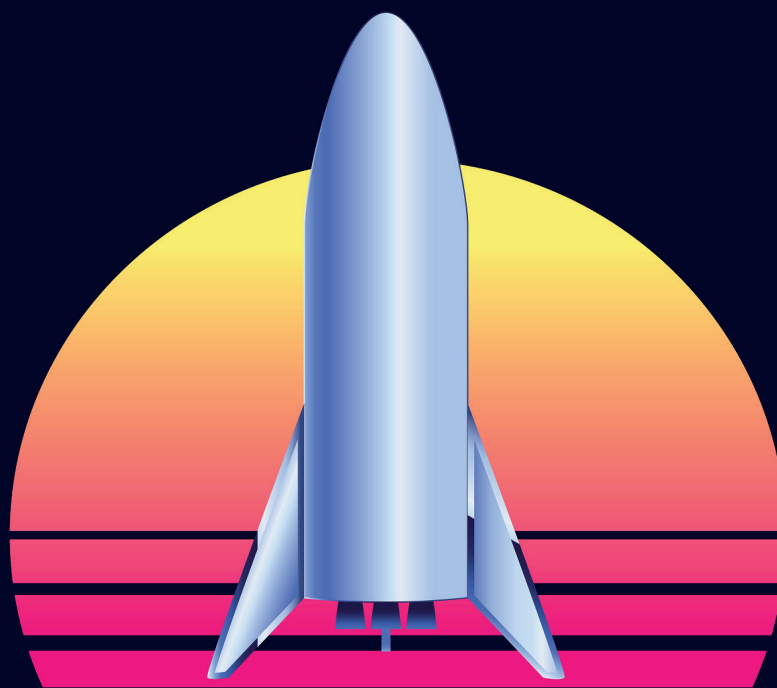




ATLANTIC CAPITAL MARKETS



TO THE MOON

Is there really money to be made from meme stocks?

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Summary

If there is one investing trend that will stand out when we look back at 2021, it will be the rise of meme stocks. In a nutshell, these are stocks that become popular over chat forums like Reddit and because of the momentum they gain, share prices get pushed up quickly and to great heights, sometimes to the detriment of institutional investors who are betting on their share price decline.

There are plenty of examples of popular meme stocks. The latest one is AMC Entertainment, which is popular not just in the US, where it is headquartered but also around the world as per latest trading numbers by investing platform Degiro.

While meme stocks' price rise defies all expectations based on fundamentals, it is still essential however to consider fundamentals in order to understand better where they can go over time. To this end, this report takes a closer look at the five of the biggest meme stocks by current market capitalisation.

These are Tesla, AMC Entertainment, Gamestop, Tilray and Blackberry. The advantage in considering these stocks is also that they represent completely different sectors from electric vehicles (EVs) to post-Covid reopening and from cannabis to cybersecurity, providing a broad array of potential choices.

Among these cannabis cultivator Tilray appears to have strong potential as a stock in a high-growth industry and one whose price has fallen sharply from its recent highs. But the list of meme stocks is growing, which offers more opportunities too.

Based on the companies covered in the report, it next highlights both the opportunities and risks of investing in meme stocks. Opportunities include considering the long-term picture. If a stock's price looks attractive and it has potential, it may be a good buy even if it is a meme stock. On the other hand there are risks in buying shares when they have risen too much and those whose fundamentals are strained or both.

Finally, the report concludes with answering whether investors can really make money from meme stocks. If they time them right, the answer is quite possibly yes. While many meme stocks have come off their initial highs, it is worth recognising that their share prices have not once gone back to pre-Reddit frenzy. But it is also equally important to recognise that high returns are also possible through non-meme stocks with strong fundamentals. This is particularly so now, when the stock markets are strong.

Introduction

2021 has seen a new kind of investing in the stock markets. Retail investors have driven up prices of unexpected stocks as they went viral on chat forums. They are unexpected stocks because they are typically low-priced to start with and are also shorted by institutional investors like hedge funds. Shorting is an investing practice whereby an investor can profit by betting against the stock's price if their call is correct.

Such stocks have come to be known as meme stocks. Viral, chat forums' driven investments in low-valued and typically shorted stocks, in short. The first such was Gamestop, the video

games retailer. Its price was driven up so high that it created what is known as a 'short-squeeze'. This happens when a share price moves contrary to a short-sellers' expectations, as a result they end up selling the stock at a loss. This indicates that meme stocks should no longer be taken lightly.

Further proof of their rising significance is evident in the trading numbers for such stocks. According to investing platform Degiro, AMC Entertainment was the most traded stock in May in 10 of the 18 countries where it operates. AMC Entertainment is a down-on-its-luck cinema chain, which has suffered in the past year. But thanks to Reddit investors and the like it has seen a sharp increase in share price. So much so, that the company itself has said that the share price increase is not in line with its fundamentals.

But what do the fundamentals truly indicate? And does it matter anymore?

Top 5 meme stocks by Market capitalisation

This section outlines the five top meme stocks as per current market capitalisation to assess their value for an investor. There are three advantages of this approach.

One:- it allows an exploration of meme stocks across sectors that can provide a blueprint for considering more meme stocks in these or related sectors in the future.

Two:- the stocks are at different stages of Reddit-popularity. While some have lost much of their gains, others are still right on top. This can give an understanding of the kind of share price fluctuations possible in a short amount of time.

Three:- these stocks' fundamentals are vastly different. While some are profit making, others are not and others are fast growing but others have future potential to grow. An assessment can be made based on different parameters.

The companies are as follows:

#1. Tesla

- **Overview:** Tesla is an automotive company known for manufacturing EVs only. It is a leading manufacturer of EVs, with sales across multiple markets.
- **Share price trends:** Of all the meme stocks, Tesla has seen the least amount of increase since the start of 2021, of only 21%. This raises the question if it is a meme stock at all. However, this hides the fact that its share price rally started in November, 2020 itself. From then to its highest point on February 10, the stock rose some 119%. Moreover, its price-to-earnings (P/E) is at a huge 628%.
- **Financials:** Tesla is the only EV company to be profitable, after it started making profits in 2020. It was loss making for a long time before that. Its revenue increased by a healthy 28% over the year as well.
- **Assessment:** There are good reasons for the rally in Tesla's price, meme stock or not. EVs are becoming more popular and governments around the world are more focused on green solutions than ever before. Tesla is also the market leader for EVs, with an

appreciable share of revenues from China, a fast growing market. However, there are risks to it as well. Competition is heating up for EVs, including from already established players like Volkswagen and Daimler AG, which manufactures Mercedes. Continued stress between China and the US can also impact Tesla's market in China. At the same time, its valuations are already quite high. While it is an attractive company, the high price is a deterrent.

#2. AMC Entertainment

- **Overview:** US based AMC Entertainment is a multinational cinema chain, which owns Odeon cinemas in the UK. It is a sizable business with operations in 15 countries, where it owns over 1,000 theatres.
- **Share price trends:** The AMC Entertainment share saw a huge surge in January, 2021. It started the year with a share price of \$2, and by January 27, its share price had risen by 895%. But its real increase came only in June. At the start of the month, its rose by a huge 3,025% from where it started the year (see table). It has fluctuated in a range since, but is still just shy of the \$62.5 levels seen at its highest.
- **Financials:** As with all Covid-19 related stocks, AMC Entertainment too saw a sharp downturn in financials for the full-year ending December 31, 2020. Its revenues were down by a whole 77% and it reported a huge loss of almost \$4.6bn. Weakness in numbers continued into the first quarter of 2021 as well as theatres remained closed.
- **Assessment:** The rest of 2021 can look better for the company, however, as lockdowns have lifted. It will take time to get revenues back to where they were before the pandemic, but forward movement has begun. There is less certainty about profits. Even before Covid-19, AMC Entertainment's net profits were not consistent. They are less likely to be so now. At the same time, its share price is now trading at a price to sales (P/S) of 66x, which is high compared to peers. The company has itself stated that increase in its share price is uncorrelated with fundamentals. This indicates that the stock can come-off overtime.

#3. Gamestop

- **Profile:** Gamestop is a US based video game retailer. It also sells consumer electronics.
- **Share price trends:** It started the year with a share price of \$17.25. Before the end of January, however, it had increased by 1,920% to \$347.5, making it the headline meme stock at the start of the year. The stock has seen extreme fluctuations since, dropping as low as \$51.7. At the last close, the Gamestop share price was at \$211.
- **Financials:** For the financial year ending Jan 30, 2021, the company reported a decline in revenues because of reasons like increasing competition and Covid-19. However, it did report a 191% increase in e-commerce sales, which now account for 30% of the total. More recently, its overall sales have also started growing. In its latest results, for the quarter ending May 1, 2021, however, it reported a 25% jump in sales, though it continued to make losses.
- **Assessment:** While Gamestop has not provided an outlook at this time, it does say that net sales are the most appropriate metric to evaluate its performance. The number has been strong in recent months, with a 27% increase in net sales in May alone. However, its share price is still quite high, over 1,000% above the level at which it started the year (see table). Like in the case of AMC Entertainment, it is not in line with fundamentals.

#4. Tilray

- **Overview:** The Canadian multinational cannabis company cultivates medical marijuana which is provided to pharmaceutical companies. It also produces consumer cannabis products like hemp oil, granola and protein powder.
- **Share price trends:** Tilray's high point came in February, 2021, when its share price rose to \$63.9, representing an increase of 610% from where it started the year. It has dropped quite a bit from there and is currently at \$16.9, though this is almost double the level at which it started in 2021 (see table).
- **Financials:** For the financial year ending December 31, 2020, Tilray's revenues increased by 26%. It is a loss-making company, but given that legal cannabis is still a nascent sector, this can be expected. From the next quarter onwards, there will be a substantial increase in its revenue levels, because of its recent merger with Aphria, which makes it the biggest cannabis company in the world today.
- **Assessment:** Tilray functions in a fast growing sector and as a merged entity, its potential has only increased. Its revenue growth has also been strong. At the same time, its share price has not increased as much as that of some of the other meme stocks. It has also fallen significantly from its highs. Its P/S at 36.6x is elevated compared to other stocks like Blackberry (see below), but going by its fast growth, it is probably not completely unreasonable. Though, it needs to be borne in mind that progress in cannabis can be reversed if there is regulatory clampdown again.

#5. Blackberry

- **Profile:** Canadian technology Blackberry pioneered secure phones that were easy to use at the turn of the 21st century. However, it has since pivoted into security software and services.
- **Share price trends:** Blackberry's share price rose sharply in January this year as well, reaching \$25.1. This was a 280% increase from its price at the start of the year (see table). While this is a significant rise, it is not quite as sharp as that for the likes of Gamestop and AMC Entertainment. It has now almost halved from the highs, and at the last close at the time of writing this report (June 18, 2021) it was at \$12.9.
- **Financials:** For the latest financial year, which ended on February 28, 2021, Blackberry reported a 14% fall in sales to \$893mn. Its net loss also ballooned to \$1.1bn, an increase in loss amount of almost 10 times from the year before.
- **Assessment:** Blackberry has not released a meaningful outlook statement for the future. But its financial performance does not encourage confidence. Its revenues have fluctuated in the past few years and it has run-up a loss in three of the past five years. However, on the positive side, the company has shown that it can be profitable and has made strong partnerships too. Also, at 8x, the price-to-sales (P/S) still looks quite reasonable compared to peers and even other meme stocks.

Share price performance of biggest meme stocks, 2021						
		Tesla	AMC	Gamestop	Tilray	Blackberry
M Cap (USD bn)		600	29.7	13.9	7.6	7.2
First trading day, 2021	Date	Jan 4, 2021	Jan 4, 2021	Jan 4, 2021	Jan 4, 2021	Jan 4, 2021
	Share price	730	2	17	9	7
Highest share price, 2021	Date	Jan 25	June 2	Jan 29	Feb 10	Jan 27
	Share price	881	63	325	64	25
	Change from first day	21	3025	1790	610	280
Current share price, 2021	Date	June 18, 2021	June 18, 2021	June 18, 2021	June 18, 2021	June 18, 2021
	Share price	623	59	214	17	13
	Change from first day	-15	2865	1143	88	95
	Change from highest price	-29	-5	-34	-74	-49

Sources: Financial Times, Yahoo Finance

Opportunities in Meme stocks

Consider the long-term

As the previous section shows, from Tesla to Blackberry, almost all of the five biggest meme stocks have value to them. Consider the example of Tesla, which saw a significant rally starting from November. Many investors, including famous institutional investors like investment manager Cathie Wood of Ark Invest, were believers in its value. And they have been rewarded as well. That it also became a meme stock gave it an additional push.

With EVs still a fledgling market that is expected to have huge potential overtime, it is possible that the Tesla stock can gain further ground. There are risks to it, as outlined in its profile, so an investor cannot be faulted for wanting to exit at a huge profit. But its long-term value could be even higher.

Price reversal

Some of the five meme stocks discussed have come-off significantly from their highest levels. Consider the Tilray share price, which has fallen by 74%. But like Tesla, Tilray too operates in a high-potential sector. And it has just become the biggest cannabis player in the world after its merger. With strong growth and the post-Covid opening up of the economy, it could perform even better than last year now. Both in the short and the long-term there can be potential for investors in the stock, that would have been less evident at its highs when its valuations had already reached sky-high levels.

If the price of Gamestop, which has also shown recovery in recent months, drops more it can be a share to consider buying as well.

Risks in Meme stocks

Too much noise

Traditional investors depend on fundamentals, because they reveal the true value of a stock. However, in a stock market rally or chat-forums' driven viral investing price increases make it difficult to gauge how far the share price can go. As a result, investors run the risk of buying the stock too late and getting their fingers burned.

Consider the case of AMC Entertainment, whose share price is down only 5% from its highest levels. However, according to analysts' share price targets compiled by the Financial times, there is a unanimous expectation that it will decline from current levels. At the very least, it is expected to decline by 73% and it could fall by as much as 98.3%. In other words, it can lose almost all of its present value.

Strained fundamentals

One reason a stock like AMC Entertainment can be expected to fall is its recent financial weakness. It can take a while for it to get back to health. If it loses momentum, investors can lose their capital but also it may take a very long time for them to recover it as long-term investors, if ever.

Conclusion on how to invest in Meme stocks

It is still possible to make money by investing in meme stocks, though. If companies with potential are bought soon after they start rising, they can be held for both the short and the long-term depending on investor preference. In such cases there is little to lose.

Buying shares of companies in high-growth sectors like Tesla and Tilray can prove to be a good idea in the long-run. However, Tilray has an edge because its share price has come off quite a bit already.

All the others - AMC Entertainment, Gamestop and Blackberry have potential too, but also risks. AMC and Gamestop have the advantage of being reopening stocks, though they are still somewhat pricey. Blackberry has been a strong company in the past that can prove itself again, though it is weak at present.

These five are only indicative of the potential of meme stocks, however. There are plenty of others that can be looked at more closely like Clover Health Investments, the medical insurance provider and cannabis stock Sundial Growers, as examples.

At the same time, it is important to remember that the stock markets are strong in any case. Many stocks that have not caught the fancy of Reddit investors have also given robust returns over the past year and as lockdowns ease, they can continue to perform. These can be safer investing options.

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