



Cineplex (TSX:CGX) Stock: Should You Buy Today?

Description

Cineplex stock was up 0.99% in early afternoon trading on March 26. Shares have plunged 61% over the last month. In 2019, I'd discussed some of the reasons I was [bullish on Cineplex](#) in spite of some rough patches it had recently encountered. Late last year, Cineplex stock surged on the proposed takeover by the U.K.-based **Cineworld**.

The global outbreak of COVID-19 has triggered lockdowns across the developed world. Large public gatherings have been banned in multiple countries. This has included theatres in many parts of the United States and in Canada. Earlier this month, Cineplex announced that it was closing its entertainment venues in response to the crisis.

A London-based fund with a large stake in Cineplex has urged the Canadian government to block the Cineworld deal. Should investors look to buy Cineplex near a 52-week low, as this cloud of uncertainty hovers above it?

Can the cinema survive?

The traditional cinema industry has been in a [precious position](#) for years. Theatres are increasingly reliant on big blockbusters to drive ticket sales. This has allowed **Disney** to establish a dominant stranglehold on the box office. Last year, the media giant's properties accounted for roughly 40% of U.S. box office revenue.

Meanwhile, the rise of streaming services have exacerbated these issues. **Netflix** has seen its subscribers balloon over the last half-decade. Consumers are now being told to hunker down for what could stretch into months, according to some experts. This will only entrench the popularity of home entertainment over theatre-going to kick off this decade.

Disney, which relies heavily on its box office output, recognized this trend with the launch of Disney+. The service was designed to compete with Netflix and other top streamers like **Amazon** and **Apple**. As of early February, Disney+ has gained 28.6 million subscribers.

Is Cineplex worth buying today?

Cineplex stock has climbed nearly 50% over the past week. The TSX has soared back into a bull market, as investor sentiment has been boosted by government stimulus. Moreover, there are positive reports coming out of Europe that the curve may be flattening.

In its fourth-quarter and full-year results for 2019, Cineplex saw total revenues rise 3.3% to \$1.66 billion. However, theatre attendance was still down 4.2% year over year. Adjusted EBITDA surged 54.7% to \$405 million. Moreover, box office and concession revenues per patron increased 1.6% and 5.8%, respectively, compared to 2018. The board of directors capped off the year with a quarterly dividend increase to \$0.15 per share.

The complications faced by Cineplex and others in this sector are impossible to calculate right now. Before this crisis, there were concerns that the theatre industry was on its way out. Previous financial crises have accelerated the decline of specific industries. Consequently, these industries can be pushed over the edge before their expiration date.

However, when cinemas open, they will have a flurry of top content that has been bottled up due to the crisis. This could result in higher-than-usual volumes when governments loosen restrictions. In addition, people may have exhausted their streaming service consumption after spending so much time at home.

Cineplex stock last had a price-to-earnings ratio of 22 and a price-to-book value of 1.3, which falls below the industry average. However, there is too much uncertainty in this sector for me to jump into the stock in late March.

CATEGORY

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