BUY ALERT: Is it Time to Snag Cineplex (TSX:CGX) Stock?

Description

Investors will be hard pressed to find an industry that has suffered more than traditional cinemas during the COVID-19 pandemic. Back in the spring, I'd discussed whether this crisis could deal a mortal blow to some of the top operators in North America. Today, I want to revisit **Cineplex** (TSX:CGX), as it restarts much of its operations across Canada. The stock set off a buy signal to start this month. Is it worth picking up today?

How Cineplex is fighting back against its slump this summer

On July 3, Cineplex filed a lawsuit in Ontario Superior Court against its former suitor Cineworld. The Canadian company is seeking damages that could exceed the $2.18 billion outstanding on the deal. Cineplex said that it complied with its obligations under the original agreement. It is also seeking compensation for the $664 million in debt and transaction expenses that Cineworld would have taken on had the deal closed.

The lawsuit comes as Cineplex is facing a dangerous financial situation. This week, the company said that it reached a deal with lenders to provide some financial relief due to COVID-19. However, it has warned that its ability to continue operations is far from certain in the current environment.

Will the reopening provide some relief?

Cineplex needs to ramp up revenues to stop the bleeding. Fortunately, some relief may be coming on that front, as theatres are reopening across Canada. Its operations will be limited to a fraction of its previous capacity. Moreover, the key province of Ontario extended its emergency orders to July 22. This means any reopening in Canada's most populous province will be delayed until late July at the earliest.

First-quarter 2020 results were not pretty. Mass closures resulted in sweeping temporary layoffs, the reduction of capital expenditures, and the continued suspension of its dividends. Cineplex stock has struggled mightily over the past five years. The promise of its hefty dividend payment was one of the few bright spots for shareholders.

In Q1 2020, total revenues plunged 22.4% year over year to $282.8 million. Theatre attendance fell 28.5% to 10.7 million. These results were the three months ending March 31, 2020. The second quarter, which will catch the complete stoppage of operations, is sure to be even more frightening. Cineplex requires a return to normalcy in order to survive into the fall. There is too much uncertainty to determine whether it will get the opportunity to stage this comeback.

Should you buy Cineplex now?

Earlier this month, I'd said that I was avoiding Cineplex stock in this dangerous environment. Cineplex stock moved into technically oversold territory late last week and early this week. It last had an RSI of 32, which puts it just outside oversold levels. It also possesses a solid price-to-book value of 1.3.

These are dire times for Cineplex and others in this industry right now. With limited growth potential and no income offering, it just does not make sense for investors to take the gamble on Cineplex today.

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