Cineplex (TSX:CGX) Could Have a Massive Third Quarter If Its Cinemas Open

Description

Cineplex (TSX:CGX) stock surged 11% in a single trading session on Thursday on news that all 164 of the firm's theatres will be opening across the country. In the second quarter, revenues nosedived 95% to a meagre $22 million.

With the doors set to open across all Cineplex locations, the top line could have the potential to surge, as Canadians longing for a sense of normalcy return to the cinema to catch their favourite flicks that have been delayed non-stop. Christopher Nolan's widely anticipated film *Tenet* is likely to draw major crowds across cinemas in localities that have gotten COVID-19 under control.

Similarly, Russel Crowe's latest film *Unhinged* and *SpongeBob: Sponge on the Run* films could help provide Cineplex will the top-line relief it so desperately needs at this juncture.

Of course, there's a real risk that Cineplex may be reopening all its locations too soon. The company has been under an unfathomable amount of pressure lately, and if the company can't recover at least half of its top line soon, the risk of insolvency goes up by the day, making Cineplex a potentially dangerous speculation that could go either way.

A big top-line boost could be on the way for Cineplex

Fortunately, there's a stacked lineup of must-see summer films that have been piling up in the first half. Canadians will finally have a chance to catch big-budget box office hits. With more than enough time to ramp up on safety procedures, Cineplex has an opportunity to reopen correctly and get things back in the right direction.

The company is reportedly opening its doors with "enhanced safety and cleaning measures" in addition to strict protocols that will "allow for physical distancing both inside and outside" theatres.

Cineplex is cheap, but are the insolvency risks too great?

At the time of writing, Cineplex stock looks dirt-cheap at 1.7 times book value. The Friday reopening of Cineplex locations, I think, could have the potential to be a major needle mover on the stock, as coming quarters could have unprecedented quarter-over-quarter growth.

Of course, a resurgence in COVID-19 cases could spark a reopening rollback that could shutter many Cineplex locations once again, possibly for the duration of this pandemic. Moreover, if COVID-19 cases are reported at one or more Cineplex locations, it'll become that much harder for the firm to get bums back in seats, no matter how safe the company makes its customers feel at its locations.

Unless you're willing to lose your shirt with an all-or-nothing-type gamble, I wouldn't do anything as silly as investing a huge chunk of your wealth in Cineplex, even with shares trading at a mere $9 and change. There are far too many risks involved with the name and a lot of things that could go wrong with the reopening of its locations.

Foolish takeaway

While I think the worst is in the rear-view mirror for Cineplex, there's still a real risk that reopening rollbacks could keep the company's revenues depressed for a longer duration of time. The COVID-19 pandemic isn't over yet, and if it worsens, Cineplex stock could have much farther to fall.

That said, Cineplex has a tonne of upside going into year-end for those who are bullish on the timely advent of a coronavirus vaccine or think the Canadian economy can remain mostly open without having to return to shutdowns to contain a potential second wave.

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