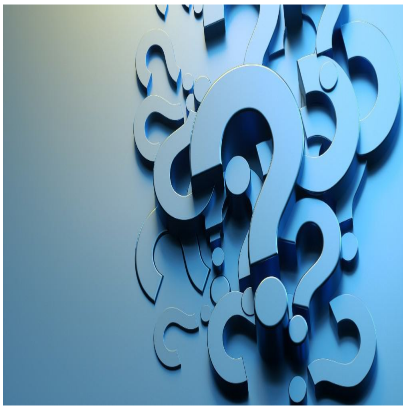

Cineplex Stock Is Up 20% in 1 Month: Is Now the Time to Buy?

Description

Entertainment company **Cineplex Inc** (TSX:CGX) is facing a tough recovery ahead. Its share price has crashed this year, falling more than 70 in 2020. The COVID-19 pandemic's caused lockdowns and the shutdown of many businesses, including theatres. It led to a catastrophic quarter for the movie theatre operator when Cineplex released its second-quarter results on August 14.

Its sales for the period ending June 30 totalled just $22 million — down 95% from the same period last year when its sales came in at $438.9 million.

However, despite this, the stock's been rallying over the past month, rising around 20% amid such a horrible performance. One of the reasons investors are likely bullish on the stock is that the company announced in August that it would be reopening all of its theatres on August 21. In the announcement, Cineplex CEO Ellis Jacob stated that the company has "implemented industry-leading health and safety protocols and will continue updating and evolving our practices as necessary to keep everyone healthy and safe."

Customers will be able to reserve seating and staff will spend more time cleaning the facilities. Theatres will also allow for social distancing, meaning that they will be operating at reduced capacities.

The big question is whether moviegoers will come back

Cineplex opening all of its doors gives the company a chance to recoup a lot of lost revenue, but it'll all be for naught if there isn't demand. Many people are getting more accustomed to staying home and some movies are now debuting online and going straight to streaming, providing even less of an incentive for consumers to go to the movies.

Until investors start seeing the attendance numbers come in, it'll be difficult to predict how full the theatres will be. And if there's a surge in COVID-19 cases, that could alter the outlook as well.

What does this mean for investors?

The good news for investors is that this will mean the company's sales will likely be much better in the third quarter than they were in Q2. After all, it would be hard to do much worse. But even with the increase in sales, even half capacity likely wouldn't get the business anywhere near breakeven.

Prior to the pandemic, Cineplex was generating just single-digit profit margins when its numbers were in the black. Once you add in additional expenses for extra cleaning and cut its typical sales numbers in half or even by one-quarter, there's little hope of Cineplex generating enough in revenue to be able to post a profit.

Should you buy Cineplex stock?

Despite the rally that the stock's been on of late, there's still too much risk investing in Cineplex right now. It may not go bankrupt anytime soon, but that doesn't mean that it's going to survive the pandemic, either. It could be a year or even longer that the public's dealing with social distancing measures and that there are restrictions in place.

And until they subside and COVID-19 is no longer a concern, it's unlikely that things will go back to normal for Cineplex, assuming that's even a possibility at all.

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