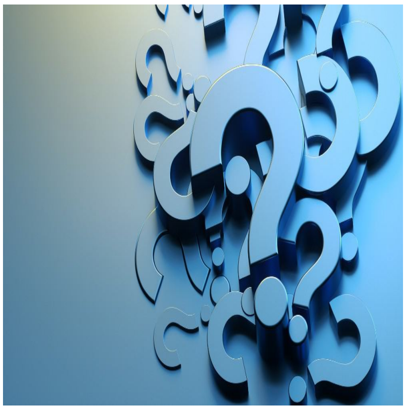

Moviegoers Are Going Back to Theatres: Are There Enough of Them to Save Cineplex (TSX:CGX) Stock?

Description

Cineplex (TSX:CGX) announced in August that it would be reopening all of its theatres in Canada. But with social-distancing measures in place, they wouldn't be operating at anywhere near their full capacity. The bigger question was whether people would even go back to theatres, especially amid COVID-19. This week, Cineplex provided data on just how many people have returned.

On September 23, the company issued a release stating that since July 1, its theatres have hosted more than 1.5 million guests. That's still nowhere near the more than 17 million people that went to the company's theatres in the third quarter last year, which covered the period from July through to the end of September. However, from July until late August, all of Cineplex's theatres weren't open, and so for a full quarter, Cineplex's numbers would likely have been higher if all of its venues were up and running.

Why the company isn't out of the woods

Even with a bump up in traffic, there are a few serious risks here for investors.

The first is that COVID-19 cases are on the rise in recent weeks, and as fears relating to the coronavirus increase, the number of people going to theatres will likely decline. And Cineplex's recent numbers were likely inflated because of the busier summer season. Plus, with more people working remotely, there was potential more people than usual to visit a theatre. But now, with schools open again and the summer over, Cineplex may see softer numbers in the latter part of the year, even with more theatres open. And if there's a second wave of COVID-19, there's a real risk that theatres could once again get shut down.

The second concern is that even if people are going back to theatres, it may simply not be enough to save Cineplex. Even if half of its guests return, Cineplex may still find it very difficult reaching breakeven. Added safety measures (and costs) will mean more overhead for the company without an increase in its top line. And for a company that generated a profit margin of just 1.7% in 2019, there wasn't much of a buffer there for Cineplex to begin with.

Should you invest in Cineplex?

It's positive news that the company is seeing moviegoers come back. However, this isn't enough of a reason to buy shares of Cineplex.

The stock is down more than 75% this year, and it's still trading at 1.6 times its book value. Given the risk involved in buying shares of Cineplex, the stock likely isn't worth even paying book value for at this point. And even then, it would still be a risky buy. After all, a company that may struggle to stay above water amid the pandemic may never become cheap enough to buy. With more streaming options than ever before for consumers and some movies skipping theatres altogether, the theatre business doesn't look all that promising even after COVID-19.

Without more certainty ahead for the economy and how long the pandemic may be a concern for people, Cineplex stock will remain a very risky investment. And unless you're willing to gamble with your portfolio, this isn't a stock worth buying anytime soon.

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