Will a Cineplex (TSX:CGX) Recovery Happen?

Description

The COVID-19 pandemic has changed how businesses operate. Traditional brick-and-mortar retail have hastened their transition to e-commerce. Others, such as indoor dining and entertainment businesses have reverted to take-out and delivery only. While there is no doubt that those businesses will mount a complete recovery once the pandemic ends, the question is, when?

Cineplex (TSX:CGX) is the largest movie theatre chain in Canada. Those theatres remain largely shuttered due to the pandemic. Critics of Cineplex have long viewed the company's traditional movie-and-popcorn business as a major risk for investors. That view stems from the growing availability of streaming options and devices, which has eliminated the exclusivity that movie theatres once offered. Now that theatres remain mostly closed and a second wave looms on the market, those concerns are only growing.

So far in 2020, Cineplex's stock has plummeted over 85%. By way of comparison, the overall market is still in the red by 3% but it continues to creep up towards breaking even. Does this make Cineplex a great stock to buy at a discount on hopes of a grand Cineplex recovery? Not likely, and here's a look at why.

Dismal results will mute any Cineplex recovery

Cineplex's theatres continue to pivot between being partially and fully closed. As a result, attendance numbers remain dismal, and revenue numbers are a fraction of what they once were. Earlier this year, the company even suspended its once-impressive monthly dividend, hoarding that cash to remain afloat.

How bad were those results? In the most recent quarter (which was inclusive to June 30), Cineplex saw sales drop 95% year over year to just $22 million. Theatre attendance dropped to just 6,000 customers in the quarter, whereas in the same quarter last year, Cineplex welcomed 17 million customers.

Overall, Cineplex reported a net loss of $98 million in the quarter. In the same period last year, Cineplex reported earnings of $22 million.

Diversifying isn't enough, is it?

Cineplex is an entertainment company, but most of its revenue is derived from its movie theatre business. The company has tried in recent years to diversify away from its movie-and-popcorn core, with some success. Cineplex's Rec Room venues are a perfect example of this. The multi-configurable entertainment venues represent an interesting means to generate a separate revenue stream with plenty of growth potential.

Unfortunately, while the pandemic rages on, that growth potential is stalled, and Cineplex will continue to bleed cash. Other initiatives, such as Cineplex's digital media sign business, are also being impacted. All of this needs to be considered for any sort of Cineplex recovery.

To be clear, the pandemic will end, and business will resume. The more pressing question is when, and what will that mean to Cineplex? Even before the pandemic, Cineplex was fighting a losing war with streaming services. Those services continue to offer content during the pandemic, including recent releases that were at one time viewed as Cineplex's golden ticket (and justification for higher admission fees). An example of this is *Mulan*, which was released directly to streaming with a premium fee notched on. Further to this, as a result of the pandemic, some of the most highly anticipated movies of 2020 have been pushed back to 2021. This includes *Wonder Woman 1984*, *Black Widow*, *No Time to Die*, and *Top Gun: Maverick*.

In short, Cineplex's issues will remain for at least another year and likely even longer, and, until then, its market will continue to erode.

Final thoughts

There are plenty of viable investment options on the market. Many of those options are now trading at a significant discount. That discount is well founded when it comes to Cineplex. Additionally, Cineplex no longer offers a dividend, and the company lacks any long-term growth prospects.

In my opinion, barring a miraculous Cineplex recovery, there are far better options to consider at the moment, many of which still offer a handsome dividend, too.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/08/25
Date Created
2020/10/19
Author
dafxentiou