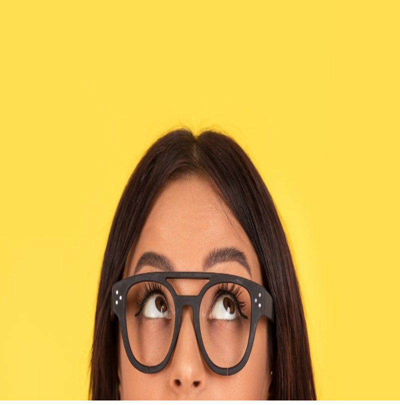

Post-Earnings: Is Cineplex (TSX:CGX) a Buy?

Description

Cineplex (TSX:CGX) was once regarded as a stellar long-term investment. An attractive monthly dividend coupled with a series of promising long-term initiatives made the stock an appealing option. Unfortunately, that view has changed over the past year. The COVID-19 pandemic changed how and where we conduct business, leaving Cineplex and other businesses that rely on gatherings of people in dire straits.

Cineplex just announced results for the most recent quarter. Let's take a look at those results and determine whether Cineplex is a buy post-earnings.

Q3 results are bad but not surprising

Cineplex's business is heavily reliant on people congregating in enclosed spaces to watch a show and purchase concessions. In other words, expectations weren't particularly high going into this quarter.

In the most recent quarter, revenue came in at $61 million, reflecting an 85.4% decrease over the $418.4 million earned in the same quarter last year. Theatre attendance in the quarter came in at 1.6 million. By way of comparison, in the same quarter last year, Cineplex welcomed 17.5 million customers into its theatres.

Overall, the company posted a net loss of $121.2 million, compared with 13.4 million earned in the same quarter last year.

As dismal as that sounds, Cineplex is working diligently to slash costs and weather the pandemic. Specifically, in the last quarter, the company raised $303 million in financing and reduced outflows on leases by $58 million. Cineplex also received $22.5 million in wage subsidies over that time. Earlier this year, the company also suspended its monthly dividend.

From an operational standpoint, Cineplex did manage to get all of its theatres opened in the most recent quarter. This was a key factor in the company reporting 1.6 million customers. By way of comparison, in the second quarter, where the pandemic forced the closure of all theatres, Cineplex reported attendance of just 6,000 customers.

Post-earnings final thoughts

Cineplex, like much of the market, will have a difficult next few years. The move towards a vaccine may be inching closer, but inoculating nearly everyone is something that will take a year or more. Until that happens, Cineplex and others will be left operating in a reduced capacity. This also means further post-earnings losses are to be expected.

So far in 2020, Cineplex has seen its stock drop 80%.

That's not to say that Cineplex can't adapt to this new (albeit temporary) norm. The company will continue to find cost-savings and innovate as it has done in the past. Further to this, when theatres do fully open again, there will be a huge number of blockbuster films to attract patrons. Some examples include *No Time to Die*, *Dune, Wonder Woman 1984,* and *Black Widow.* All of those movies have postponed their theatrical releases until 2021.

So, where does this leave investors? Existing investors with long-term timelines may want to wait out the recovery, which will come, just not anytime soon. Prospective investors may be better suited looking elsewhere to invest.

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Date
2025/07/23
Date Created
2020/11/14
Author
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