Cineplex Stock: Buy Now or Wait?

Description

Cineplex (TSX:CGX) took a beating this year due to pandemic lockdowns. The second COVID wave means extended pain for Canada's largest movie chain, but contrarian investors appear to see better days on the horizon. Cineplex stock is up more than 80% in November.

Why is Cineplex stock soaring?

Cineplex traded close to $5 at the end of October. At the time of writing, the shares sell for more than $9. The stock still appears cheap to some investors who watched it fall from $34 where it began the year.

The boost in recent weeks comes from good vaccine news. Two major COVID vaccine producers announced very positive trial results showing success rates around 95%. The market finally sees light at the end of the pandemic tunnel, and that should be good news for Cineplex.

As expected, the company reported ugly Q3 2020 results. Revenue dropped 85% from the same quarter last year to $61 million. Theatre attendance fell 91%.

The result was a net loss of $121 million in the quarter. Cash burn came in at $77 million.

On the positive side, Cineplex announced new terms with lenders to give it some breathing room to get through the rough times. The covenant suspension will extend to Q2 2021. Cineplex had an outstanding balance of $460 million as of September 30.

Risks

Beyond the pandemic, investors have to decide if Cineplex has a future in the world of movie streaming. The company relies on movie studios to create blockbuster films to show in its theatres.

The pandemic forced many studios to delay the release of several top films. In addition, those with streaming services tested the idea of skipping the theatres and going straight to their streaming audiences. **Disney** did this with *Mulan.* As its subscriber base grows, the business case for bypassing the theatres could strengthen.

The abundance of streaming services might push people to invest in home theatres and stop going to the big-screen venues. The days of $2.50 Tuesdays at the theatre are long gone. A family outing to the show gets expensive once you consider the ticket prices and the treats.

Opportunities

Once the pandemic ends and Cineplex can fill its theatres again there is a chance the situation will quickly revert back to its previous norms. Movie lovers might flock back to theatres, and even if someone has streaming services, the night out at the show is still appealing.

Cineplex had a deal in place in December last year to be acquired by U.K.-based **Cineworld** for about $2.2 billion. Cineworld backed out of the agreement in June. Cineplex is fighting the move in courts.

Another suitor could emerge in the next few months. Private equity might step in, or a major streaming company could decide to add the big-screen experience to its portfolio and leverage the subscriber base to drive additional revenue on popular films or TV shows.

Whether or not it would be at or close to the previous valuation is anyone’s guess.

Should you buy Cineplex stock now?

Contrarian investors who stepped in at $5 are sitting on some nice gains. At this point, I would be careful chasing the stock. New lockdowns could last into 2021, and it will be several months before vaccines become widely available to the Canadian public.

The stock could easily go higher, especially on new takeover news, but I would wait to see how things pan out in the coming weeks. Investors might get another chance to buy Cineplex stock at a lower level.

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