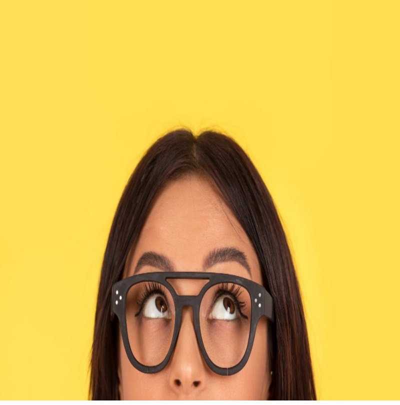

Why Has Cineplex (TSX:CGX) Stock Doubled in Just the Past Month?

Description

A month ago, shares of **Cineplex** (TSX:CGX) were trading below $5. However, they've been soaring of late and are now trading at around $10. Previously, investors were bearish on the stock given COVID-19, lockdowns, and declining sales. However, the stock got new life on Nov. 9, after **Pfizer** announced that its vaccine was 90% effective against the coronavirus, which gave investors hope that there's light at the end of the tunnel, and the pandemic might be over with a possible vaccine not too far away.

That rally didn't last for long, but Cineplex stock got another boost when the company released its third-quarter results on Nov. 13. For the period ending Sept. 30, its sales of $61 million were still down 85% year over year. However, that was nearly triple the $22 million in revenue that Cineplex reported in the second quarter. Its Q3 loss of $121 million, however, was more than the $99 million loss it incurred in Q2, and it's now the third straight quarter where Cineplex's bottom line has been in the red.

CEO Ellis Jacob is optimistic about the future, stating that "by early in the second quarter of 2021, business is going to change dramatically, and that's going to be on the positive side because there's a whole host of great movies ready to be released."

The only problem with that is that's still several months away, and there are no guarantees that Cineplex's theatres will be able to be at full capacity by then. Even though there may be vaccines available within the coming months, it'll still take months to administer them and for movie theatres to be back up and running near full capacity. Concerns around the pandemic would have to be near zero, which may be unlikely by next summer.

While it's possible that there could be a significant change by Q2 of next year for Cineplex, investors should be careful not to read too much into the CEO's comments and assume that it means things will be back to normal or that the stock will have fully recovered at that point. Shares of Cineplex are still down close to 60% over the past 12 months.

Should you buy Cineplex stock today?

Make no mistake, Cineplex is still a risky stock to own. Although Q3 was an improvement in terms of sales, the company actually burned through more cash. During the quarter, it used up $87 million to fund its day-to-day operating activities. In Q2, that figure was a positive $18 million. A big reason is working capital. In Q3, accounts payable and accrued liabilities drained $46 million, while in the previous quarter the balances were increasing, and they had the reverse effect on cash flow.

As more of Cineplex's bills come due, the company may have trouble containing its cash burn. And with just $13.2 million of cash and cash equivalents on hand as of Sept. 30, the company isn't sitting on a whole lot of cash. Its current assets of $102 million are also nowhere its current liabilities totaling $428 million.

There's no doubt that things will get better for Cineplex next year — but the big question is whether the company can last long enough. Things still don't look good for the stock, and investors shouldn't get distracted from the big challenges facing the company right now. There are still tough times ahead for Cineplex and its shareholders.

If you want a good growth stock to invest in, you're better off looking at businesses that aren't as risky.

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Date
2025/08/15
Date Created
2020/11/19

Author
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