A Cineplex (TSX:CGX) Recovery Is Happening

Description

Do you have a favourite roller-coaster ride? Some investors might say **Cineplex** (TSX:CGX) given the volatile yo-yo ride that the stock has taken in 2020. Year to date, the stock has slid over 65%, but in the past month alone, Cineplex has shot up 125%. Does this mean that a Cineplex recovery is happening?

Just the raw, shocking numbers

Proponents of a Cineplex recovery point to that recent stock surge but often steer clear of the underlying numbers. By way of example, in the most recent quarter, Cineplex reported revenues of $61 million. This was a whopping 85.6% lower than the same period last year. Theatre attendance in the quarter was limited to just 1.563 million customers, representing a 91.1% drop over last year.

Overall, the company posted a $121 million net loss in the quarter compared with net earnings of $13.382 million last year.

As dismal as those numbers sound, they are a massive improvement over the previous quarter. In that Q2 report, the company was forced to close all theatres as part of the initial COVID-19 lockdown.

Is the Cineplex recovery happening?

The answer to that question really depends on how much of a “glass-half-full” investor you are. Yes, Cineplex has seen some positive growth signs following the dismal results reported at the onset of the pandemic. It is also worth noting that the pandemic is far from over. The recent wave of positive vaccine news has much of the market riding upwards. Unfortunately, the reality of the situation is that inoculating everyone will take a year or more, and a return to normal will be months after that (if ever).

The new reality we now live under has accelerated some trends, such as remote working, content streaming, and online grocery shopping. Even after a vaccine is administered, our *new* normal may never be the same as the one we had in 2019. Some of those changes introduced in the past year may stay. Bulls that tout a Cineplex recovery happening anytime soon neglect to note the deteriorating market for in-person theatres prior to the pandemic. It's unlikely that after a year of social distancing, customers will flock back to enclosed spaces to watch a movie — at least initially.

There's also the small issue of the GTA entering another lockdown. This will mute any prolonged micro-recovery, at least for the next few weeks. If anything, depending on the extent of this lockdown, we may see a return to the dismal results in Q2 I noted above. Longer term, the impact of the COVID-19 pandemic will only serve to accelerate the demise of the large in-person theatres.

In other words, recent investors that have ridden this recent wave may want to consider taking their profits. A recovery to pre-2020 levels seems all but unlikely anytime soon, and that includes Cineplex's one-time appetizing dividend. So, the Cineplex recovery is happening, it just might not be what investors want.

Fortunately, there are more than a number of great long-term investments on the market. Many of those other options provide monthly dividends that are on par with what Cineplex once boasted.

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