



Cineplex (TSX:CGX): Buy or Dump?

Description

The COVID-19 pandemic left a lasting effect on businesses everywhere. For **Cineplex** ([TSX:CGX](#)), the pandemic helped push the entertainment company down over 70% in 2020. Now that vaccinations are beginning, some investors are looking at Cineplex as a heavily discounted long-term pick. Let's try to answer the question if whether those investors should buy or dump Cineplex.

Cineplex's problems are not just COVID

When the COVID-induced lockdowns took effect, it decimated Cineplex. By example, in Cineplex's second-quarter earnings report from the summer, Cineplex reported theatre attendance of just 6,000 patrons. To put how dismal that was, in the same period in 2019, Cineplex reported an attendance of over 17 million customers.

Most recently, attendance came in at 1.7 million, but that's still a far cry away from those pre-pandemic numbers. That fact alone may provide investors with an answer to the buy or dump question I asked earlier.

There's little that Cineplex can do at the moment. The company continues to slash costs in an effort to weather this storm. The company even suspended its once-lucrative monthly dividend. To be fair, that was an unpopular move, but it was the right one.

Adding to those woes is Cineplex' business model. The movie-and-popcorn model hasn't changed much in the past century. Customers purchase an admission ticket to see a show, and then offer customers a variety of concessions to purchase. That model is coming under threat from the sheer number of streaming devices and services on offer.

In most cases, a one-month unlimited streaming subscription costs less than the price of a single admission. It's a hard-to-beat offer and has deterred many would-be customers from going to the theatre.

To be fair, Cineplex is innovating and expanding into other areas to diversify its revenue stream. Prime

examples of this include theatre VIP seating and service, as well as the company's Rec Room entertainment venues. Cineplex also has a promising digital media segment that is responsible for the introduction of digital menu boards in fast food establishments.

But are those initiatives enough to justify buying Cineplex at this point?

Buy or dump?

Every investment, no matter how secure or stable, carries some risk. In the case of Cineplex, those risks are huge. This means that the stock may not appeal to those investors that lack an appetite for risk. Even then, Cineplex returning to its former market position is something that could take several years, if at all. The same could be said of Cineplex restoring its dividend.

The streaming business is not going away. If anything, it will only continue to expand as a safe and viable alternative to the theatre. As for the pandemic, there's finally a light at the end of the tunnel, but a full return to normalcy is likely at least still a year out, if at all. This doesn't make the company an appealing investment.

In other words, unless you are already invested in Cineplex and have a long timeline in mind, there are [far better options to invest](#) in. Many of those other options still provide investors with a [handsome monthly dividend](#) too.

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