Cineplex Stock: Buy Now or Wait?

Description

Cineplex (TSX:CGX) just reported Q4 2020 results. The numbers weren't good, but investors are now wondering if this is the right time to buy Cineplex stock ahead of the reopening of the economy.

Cineplex cash burn continues

Cineplex focused on reducing expenses and shoring up the balance sheet during the latest quarter. The company sold its Toronto office for $57 million and then agreed to lease the property. The company also received $60 million as part of a deal on its SCENE loyalty program.

Cineplex renegotiated new terms with lenders to buy more time, as the country works through the vaccine roll-out program.

Cash burn since the middle of March last year has been $15-20 million per month. In Q4, net cash burn was $74.3 million. Cineplex reported a net loss of $230.4 million in the quarter compared to $4.7 million in earnings in the same period last year.

The full-year 2020 net loss came in at $629 million, or nearly $10 per share on a diluted basis.

Investors should expect Q1 2021 numbers to be similar. Theatres across the country remain closed due to the latest round of lockdowns. Provinces are starting to ease restrictions, but it could be the summer before theatres get the green light to fully open again.

The reversal of fortunes is a shock for dividend investors who relied on the company's generous and growing payouts for years. Today, the dividend is gone, and a restart of the distributions isn't likely until the theatre industry recovers.

Cineplex stock beyond the pandemic

Cineplex faced headwinds before the pandemic arrived. That's why it had agreed to a buyout from

U.K.-based **Cineworld** in late 2019. The $2.8 billion agreement valued Cineplex at more than $30 per share. In fact, Cineplex stock rose from $24 to $34 after the announcement.

Unfortunately for Cineplex shareholders, the pandemic arrived, and Cineworld backed out of the deal in June.

That news, along with the second wave of the pandemic, eventually sent Cineplex shares below $5 in October. The approval of COVID-19 vaccines gave the stock some new life in recent months. Cineplex currently trades near $11 per share.

Cineplex stock bulls think movie fans will flock back to theatres when full reopening occurs, hopefully later this year. That might turn out to be the case, as long as Cineplex has compelling content to show on the big screen. Movie studios delayed several major releases in 2020 and for the first part of 2021. Some simply by-passed theatres completely and released the films directly to streaming services.

The number of streaming services continues to grow. Cineplex stock topped out around $53 in 2017. The downward slide to late 2019 coincided with the rise of the streaming industry. Movie studios won't abandon theatres completely, but they are already shortening the timeframe they allow theatres to have exclusive showings before moving new releases to the online services.

Should you buy Cineplex now?

Assuming the business bounces back to where it was in 2019, the case could be made for the stock to eventually recover to the $20 mark. In that scenario, Cineplex stock looks cheap.

Another takeover offer could also be a catalyst. While it is risky to buy a stock hoping for a buyout premium, it wouldn't be a surprise to see Cineplex get sold. Whether that price would be closer to $12 or $20 is anyone's guess.

Contrarian investors who like the long-term prospects for the cinema industry might want to take a small position at this level. Those who think theatres are doomed should search for other opportunities in the market.

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