Should You Bet on a Cineplex (TSX:CGX) Recovery?

Description

It's been a tough year for movie theatres amid lockdowns and restrictions due to the COVID-19 pandemic. The businesses are dependent on foot traffic and without it, they've been struggling to generate cash flow and already thin-margins have been looking even worse. But with vaccines potentially putting a stop to COVID-19, there is hope that things could return to normal, perhaps even later this year. If that happens, a stock like **Cineplex** (TSX:CGX) could become a great buy.

In the past 12 months, its shares have fallen around 60%, and that's with a bit of a recovery already happening in the past few months. But is the stock too risky to invest in right now? Let's take a closer look.

Here's how the company did in its latest earnings report

On February 11, Cineplex released its fourth-quarter and year-end results for the period ending December 31, 2020. Unsurprisingly, much of the focus has been on minimizing cash burn and keeping its costs down while trying to get as much money flowing into the business as possible.

The company reported attendance of just 786k people during Q4. That's just 5% of the more than 16.8 million people who watched movies at one of its locations in the fourth quarter of 2019. Cineplex incurred a staggering $230.4 million loss during the period as a result of the minimal activity.

But these numbers aren't surprising to see, especially given that movie theatres are one of the last places that will be open anywhere near capacity again, and that won't happen until health officials are content with the pandemic case numbers.

Cineplex has to just get through this year, and then the stock may be in okay shape after that. And to assess the strength of its current financial health, investors need to turn their attention to the statement of cash flow.

In Q4, Cineplex burned through more than $61 million in cash from its day-to-day operating activities. However, it helped offset some of the overall cash burn through the reorganization of SCENE, which helped bring in $60 million in cash. And with minimal capital expenditures, there wasn’t a big drain on cash during the period. For the full year, Cineplex used up more than $106.3 million from its day-to-day operations while investing activities brought in about $26.7 million to help offset some of those losses.

As of the end of last year, Cineplex’s cash and cash equivalents totaled $16.3 million. The company hasn’t typically operated with a boatload of cash as a year earlier its balance was only $26.1 million. But with the economics of the situation different and Cineplex struggling to keep money coming in, it is in a much more perilous situation today.

Bottom line

While Cineplex is in a tough situation, as long as the company can get back to operating regularly later this year, it should be okay. That isn’t a guarantee, but that’s what makes this a high-risk, high-reward stock to buy.

If all goes well, the stock could easily double from where it is now. Before the pandemic hit, Cineplex’s stock was trading at more than $30 per share and in 2017 it was at over $50. There could be some significant gains to be earned from the stock if a recovery takes place.

However, unless you are willing to take on the risk, this may not be a suitable stock for you as the pandemic has been anything but predictable thus far, and that’s not likely to change anytime soon.

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