$1,000 Invested in Cineplex (TSX:CGX) March Last Year Is Worth This Much Today

Description

It's been a year since the pandemic pulled financial markets down and broke one of the longest rallies. Major indexes crashed 30% in just a couple of weeks amid recession fears. Stocks like **Cineplex** (TSX:CGX) were some of the laggards that lost 70% in last March. The theatre chain company stock continued to trade weak for months and hit a low of $4.3 in early October.

CGX stock at nine-month high

However, vaccine news cheered investors later. Despite the lingering uncertainties, Cineplex stock has soared more than 225% from those lows. If you invested $1,000 in CGX stock exactly a year ago, it would be worth $490 today. However, if you had entered during the weakness, your money would have more than trebled today.

But what's next for Cineplex stock? Will it be a top recovery play for 2021?

I don't think so. Cineplex is struggling because of its weaker liquidity position. Its revenues fell 76% last year amid closures. It reported a steep loss of $629 million in 2020 against a profit of $29 million in 2019. While the financial dent was much expected, what bothers investors is still weak cash position. And that's why worst does not seem to be over for Cineplex and its investors.

Cineplex's balance sheet has turned particularly weak in the last few quarters amid the closures. At the end of Q4 2020, it had $16 million in cash. Notably, the top theatre company burned $25 million per month on average during the fourth quarter.

Alarming financials

On a worrisome notes, the year 2021 has not been helpful, putting Cineplex in an even awful position. More importantly, even if the vaccinations gain pace, how fast it helps gain footfall at movie theatreswill be interesting to see.

So current closures indicate another financially weak quarter for Cineplex. The company could continue to report a loss and a severe cash burn in Q1 2021.

That's why the management warned investors during Q4 2020 earnings, saying that due to the ongoing closures and movie release delays, Cineplex could breach its debt covenants in the next 12 months and might result in the event of default.

The downbeat commentary could have weighed on the stock. However, the stock has been trading strong. It is currently trading at $14.1, close to its nine-month highs.

Value play or a value trap?

Many analysts are hopeful about its recovery and claim the stock as a value play. However, the underlying uncertainties make it a highly risky play with looming bankruptcy fears. The stock is also not a value play given its extremely stretched valuation. Its price to book value ratio of 37 times indicates significant downside.

While faster vaccinations and federal aid could change its fortunes, both seem difficult at the moment. Cineplex's next earnings will bring more clarity about its fate.

Even if the company weathers the crisis, the opportunity cost for investors could be huge. There are plenty of worthy opportunities for long-term investors to bet on right now.

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