Why a Quick Recovery for Cineplex (TSX:CGX) Won't Be Quick

Description

Cineplex (TSX:CGX) continues to baffle investors. Canada's largest entertainment company has continued to push on throughout the COVID-19 pandemic. The business was and continues to be severely impacted by social-distancing guidelines. With vaccine distribution ramping up and an end to the pandemic now in sight, some investors see a quick recovery for Cineplex in the works.

As much as I want to be bullish on Cineplex, that might still be premature. There are three separate issues that investors need to take in mind for that recovery to gain steam. Unfortunately, a quick recovery for Cineplex would need all those concerns satisfied in short order.

A quick recovery for Cineplex: What needs to happen?

First, let's talk about the pandemic itself. COVID-19 disrupted every business in a different way. For Cineplex, it meant that theatres were forced to close. This effectively dried up Cineplex's core revenue stream, resulting in layoffs, pay cuts, and Cineplex suspending its dividend.

Assuming the pandemic were to end within the next few months, (which is optimistic) it would take a few weeks to several months longer from that point on for theatres to resume operations normally. By normal, I mean customers returning to theatres and sitting together in a packed environment.

That resumption of normal operations is the second point to note. Just because theatres will re-open at some point does not mean that the same level of customers will happily return. There's a certain level of comfort that will need to be established for that to happen. In other words, Cineplex's revenue stream will not return to its former level immediately, if ever. There's also the very real possibility that some measures introduced during the pandemic will remain in the future.

A prime example of this is Cineplex's private movie nights offering, which lets smaller groups of customers watch a movie together for a flat rate.

The final point is Cineplex's business. Prior to the pandemic, the movie-and-popcorn model was losing interest among customers. The widespread adoption of smart- devices and streaming services has provided more options for customers. Those options boast large libraries of content that cost less than a single admission ticket. If anything, the need for social distancing has pushed customers further into the arms of streaming services.

Pre-pandemic, Cineplex was diversifying its business to other areas, both within and outside its theatres. An example of this is the Rec Room a popular multi-purpose entertainment complex.

Is there any potential for a Cineplex recovery?

Based on the argument I made above, does that mean that we could still see a quick recovery for Cineplex? A recovery, yes. A quick recovery, however, seems increasingly unlikely.

To be clear, Cineplex is diversifying. The company is doing everything that it can do to get through the pandemic, no matter how painful. When the pandemic does end, that recovery will begin to take place, and existing investors will finally see some of that growth. It's more that Cineplex's recovery is something that will take time for both the business and customers to adapt to. It will happen — just not anytime soon.

To put it another way, if you aren't already a long-term investor of Cineplex, there are still far better options to invest in. Many of those stocks also provide a handsome dividend, much like Cineplex once did.

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