Should You Buy Cineplex Stock This Spring?

Description

All the way back in 2017, I'd discussed the precarious position for the traditional movie theatre industry. The rise of streaming services like **Netflix** had gradually been converting more consumers to home entertainment. Traditional cinema, however, had become increasingly reliant on blockbuster releases and rising concession prices. Today, I want to discuss whether **Cineplex** (TSX:CGX) stock is worth taking a chance on as we move into the spring. Let's dive in.

What does the future hold for Cineplex this year?

Movie theatres were barely able to operate in Canada for most of 2020. There was a brief stint in the summer when provinces reopened. However, these conditions did not last. Restrictions and lockdowns returned in the fall and winter months. Fortunately, Ontario has started to reopen towards the end of the winter. Moreover, Canada has bolstered its vaccine rollout and now appears to be on track for its original projections.

Cineplex has opened locations in London and Sudbury in recent weeks. However, major metropolitan areas like Toronto remain in the "grey" COVID-19 zone. That means businesses are either forced to stay closed or they will be severely limited. This remains an extremely difficult environment for movie theatres.

The company released its final batch of 2020 results on February 11. Predictably, there was little to celebrate for shareholders. Total revenues plunged 88% from 2019 to $52.5 million in 2020. Box office revenues per patron dropped 14%, while concession revenues per patron enjoyed 33% growth. Cineplex reported an adjusted EBITDA loss of $32.1 million.

The two biggest threats to the movie theatre industry right now

The ongoing COVID-19 pandemic continues to pose a huge threat to the movie theatre industry. Canada has lagged its peers with its vaccine rollout, rattling those who hoped for a quick recovery in 2021. Still, even countries that have excelled in this regard, like the United Kingdom, are wrestling with high case counts and the threat of more restrictions. It is still impossible to predict when this grim reality will be behind us.

Before COVID-19, the traditional cinema faced an existential threat from the rise of streaming services. Netflix was still the dominant platform at the end of the 2010s, but stiff competition had emerged in the form of **Amazon** Prime, **Disney**+, **Apple** TV+, and a flurry of smaller niche offerings. Cineplex will not be out of the woods when the pandemic is in the rear-view mirror. I'd suggested that investors should look to other TSX stocks instead last week.

Should you buy Cineplex today?

Cineplex stock dropped 1.75% on March 18. Its shares have shot up 61% in 2021 so far. Investors are betting on a rebound, but Cineplex still has a long way to go. In February, the company sold its $250 million unrated bonds at a lower yield than previously offered. It responded to strong demand from investors betting on an economic recovery trade.

Shares of Canada's top cinema operator fell below technically overbought levels after the first week of March. Investors betting on Canada's ability to fully reopen by the end of 2021 may want to consider this stock today. However, I have my eyes on other entertainment stocks to kick off the spring.

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