Cineplex Stock: A High-Volatility Trade Today

Description

Clearly, this pandemic has not been very kind to many sectors. Among the sectors hardest hit has been the cinema industry. With the implementation of stringent social distancing measures, theater operators witnessed a huge drop in revenue this past year. Nevertheless, with more vaccine rollouts and cinema theatres opening with limited capacity, the stock of **Cineplex Inc.** (TSX:CGX) is atop investor's watch lists right now.

Here's why I think Cineplex remains an intriguing, yet volatile, trade today.

Declining fundamentals overly bearish for long-term investors

Prior to the pandemic, things weren't looking very rosy for Cineplex shareholders. Indeed, many believe the pandemic only accelerated a trend that was already underway.

That said, this past quarter was pretty dismal. Cineplex recorded total attendance of 786k. This represents an 88% decline in revenue year over year. The company's cash burn rate has increased dramatically. Additionally, Cineplex was forced to sell its headquarter in December 2020 to help pay down debt.

Currently, this company's EBITDA margin is at a 44% loss, and aggregate debt is around $1.8 billion. Those numbers don't scream "buy me now" for long-term investors. However, the investors buying Cineplex share right now are hopeful the pandemic will turn this sector around in a hurry.

That said, I'd caution investors to remember that foot traffic was already on the decline prior to the pandemic. Again, I view the pandemic as an accelerant, like gasoline, poured on a pretty hot blaze already. The industry was already under fire, and investors were jumping out of what they viewed as a burning building.

Indeed, the view that pent-up demand will result in an extreme turnaround is one that should be brought into question. Yes, I think there will be some initial excitement and positive inertia for the sector. However, investors need to consider what sort of structural damage has been done to the sector as a result of the pandemic.

Bond sale great for the near-term

All that said, Cineplex is still in the midst of fighting off the pandemic. The company's goal is on surviving the next few months, to be in a position to deal with the increased demand investors hope will materialize.

Accordingly, recent moves such as the company's unrated bond sale are bullish for investors. The company was able to sell $250 million in granted bonds at a significantly lower yield than many expected. For investors with near-term worries, that's a great thing.

The company appears to be repositioning itself well for a pandemic reopening. Additionally, Cineplex's balance sheet now looks a lot more stable for those with liquidity concerns.

Bottom line

When it comes to Cineplex, I think there's really a long-term and short-term view investors can take with this company.

Personally, over the very long term, I'm bearish on Cineplex and the cinema industry. There's just too much structural damage that's been done as a result of the pandemic. Additionally, the rise of online streaming options makes a "dinner and a movie" a potential nostalgic thing-of-the-past, like drive-in movies.

That said, I do acknowledge there's a short-term trade here. Investors may be enticed to jump in and take advantage of this momentum over the coming months. While I can't blame someone for trying to make a few bucks in the near-term, I'd caution against the valuations in this sector right now.

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chrismacdonald