Is Cineplex (TSX:CGX) Good for Your Portfolio?

### Description

One of the most misunderstood stocks on the market right now is **Cineplex** (TSX:CGX). There are those investors that see immense long-term growth potential, and those that see the stock falling further. To be fair, both are valid points, but is Cineplex good for your portfolio?



## Understanding the Cineplex conundrum

Cineplex is the largest entertainment company in Canada. The theatre business provides the bulk of its revenue stream. Unfortunately, that movie theatre business had several problems well before the onset of the COVID-19 pandemic.

The availability of streaming services and devices has diminished the exclusivity of the large-screen theatre. Subscribers to those services stream a nearly endless library of content anywhere for less than the price of a single admission.

As more consumers embrace that model, the less willing they will be to return back into the theatre. For now, there are still exclusive new releases and special events that are only in theatres, but that hardly compensates for lost revenue. Adding to that, there are a greater number of “direct-to-streaming” movies being released. Finally, streaming services are investing billions in their own studios, which bypass theatres altogether.

That being said, Cineplex is attempting to both diversify itself away from that theatre business and update the traditional movie-and-popcorn business model. Pre-pandemic, Cineplex saw success from both its premium VIP service offering as well as its Rec Room entertainment venues. Unfortunately, those pre-pandemic offerings are still reliant on people gathering in enclosed spaces.

Until the pandemic is resolved and some normalcy is restored, Cineplex is stuck generating a fraction of its potential revenue. By way of example, in the most recent quarter, Cineplex reported revenue of $52.4 million, reflecting a 88% drop over the $443 million reported in the same period last year. Theatre attendance saw a whopping 95.3% decrease in the quarter, with Cineplex welcoming just 786,000 customers. Investors should also take into consideration the appetizing monthly dividend that

Cineplex suspended when the pandemic started.

That doesn't exactly represent an investment that is good for your portfolio, does it?

## Why shouldn't you back the truck on Cineplex?

To be clear, the pandemic *will* end. Vaccinations are on the rise, and markets will re-open and return to some semblance of normalcy. It is in this view that some investors see significant upside to Cineplex. The argument does have some merit, particularly with regards to an eventual recovery of the market. That recovery shouldn't be viewed in the same way when it comes to Cineplex's recovery.

Cineplex's recovery is highly dependent on factors outside of the pandemic. In terms of performance, over one year into the pandemic, the stock remains relatively flat. Fortunately, Cineplex has erased much of those early pandemic losses, but the company has failed to register any growth. Additionally, looking at Cineplex's pre-pandemic performance, we can see a steady decline. The stock is down over 46% in the past two years and down over 70% in the prior five-year period.

In short, Cineplex will see some growth when the pandemic ends, but that could still far out. Even when that does happen, Cineplex will still need to continue diversifying itself of its core movie-and-popcorn business. And, perhaps most importantly, that recovery is dependent on customers *wanting* to return to sitting next to others in enclosed spaces.



In other words, unless you're already a Cineplex investor, there are plenty of options that are better for your portfolio elsewhere.

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dafxentiou