Cineplex (TSX:CGX): Attractive Recovery Play or Stock to Avoid?

Description

Cineplex (TSX:CGX) is a stock in an interesting position in terms of investor perspective on the TSX right now.

The battered entertainment stock looks like an attractive recovery play for the post-pandemic era, as business resumes to normal for some investors. Other investors feel that it might decline further with passing time.

I will discuss Cineplex today to help you determine whether it could be an attractive recovery play or a stock you should avoid adding to your portfolio.

Cineplex's problems before the pandemic

Cineplex is the undisputed leader in Canada's entertainment industry. Its theatre business generates most of the company's revenues. The pandemic and ensuing lockdowns effectively shut down that revenue stream, but the company had problems since before the pandemic was in the picture.

There has been a massive surge in streaming services in recent years, eliminating the exclusive position large-screen theatres enjoyed for movie lovers. People subscribing to these streaming services have access to a virtually endless library of movies, shows, documentaries, and other content — all for a lower cost than single admission to theatres.

These platforms are becoming increasingly popular. As more people flock to the streaming services, fewer people will be enthusiastic about returning to the theatre after the pandemic.

Theatres still have special events and exclusive new releases that are keeping some revenue flowing, but they cannot offset the lost revenue. An increasing number of direct-to-streaming movies being released is adding to the woes of companies like Cineplex.

Some streaming companies are raking so much profit that they have invested in their own studios, bypassing theatres entirely.

Is there a post-pandemic recovery on the horizon?

Despite the gloomy situation, Cineplex has been attempting to diversify itself from the theatre model and revamp the traditional movie-and-popcorn business model. The company saw a lot of success through its premium VIP service and Rec Room entertainment venues before the pandemic — both of which still rely on people gathering in enclosed spaces.

Until the pandemic ends, Cineplex is limited to generating very little revenue than it potentially could. The company's latest quarterly earnings report showed that it experienced an almost 90% drop in revenue in the same period last year. Theatre attendance dropped by over 95%. Another thing to note is that Cineplex had to suspend its juicy dividend payouts at the pandemic's onset.

Foolish takeaway

Cineplex might see at least *some* recovery, as the pandemic ends and a relative degree of normalcy returns to society. The stock might even see some growth, but that is a distant possibility.

Regardless of its recovery after the pandemic, Cineplex will need to diversify its business to add more revenue streams and remain relevant in the changing industry. As for its purely movie-and-popcorn business, the recovery depends on customers wanting to return to being crowded in enclosed spaces — making it a speculative pick.

There might be better alternatives for upside potential that you can consider in the market right now.

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