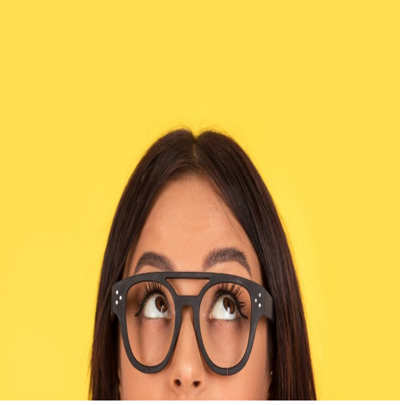

Is Cineplex Stock Really a Cheap Investment?

Description

A rebound in the markets continues to ride the highs of ongoing vaccinations. Investors looking for deals when we're on the other side of the COVID-19 pandemic continue to keep their eyes on the **TSX**. But one stock that people continue to wonder about its **Cineplex Inc.** (TSX:CGX). Cineplex stock was once a dividend darling that everyone wanted to buy, but today it's not as clear.

With a share price remaining at such lows, is Cineplex stock really cheap? Or is it just valued at a fair price and no one wants to admit it?

A history of Cineplex

Before we dig into whether Cineplex stock will make a comeback, let's look at where it was before the pandemic. The company made a lot of investments to expand beyond just movies and popcorn. Patrons could now see older films, the opera, and major sporting events. Beyond that, Cineplex invested in The Rec Room to provide an entertainment atmosphere.

But of course, this came with a cost. Before the pandemic, the company had taken on over $2 billion in debt. Meanwhile, investors were worried. That's because streaming services continued to outpace Cineplex stock. Not only could you watch films from home, these companies were making their own investments into creating films. So now some top movies weren't even being offered at Cineplex locations. Ouch.

Then, the pandemic

There was of course the COVID-19 pandemic that sent the company into a free fall. Revenue growth went from a small but stable 3% increase year over year in December 2019, and by September 2020 a loss of 50% year over year. As of writing, its most recent earnings report saw a 74% decrease in revenue year over year. And that's *with* some locations finally able to open.

The problem is similar to the airline industry. Until vaccinations become widespread and herd immunity is possible, there won't be a complete turnaround for Cineplex stock. Patrons would have to be pretty desperate to see a film on screen to risk sitting in an enclosed room with strangers for hours and risk the virus. While there are some that will do it, it's not enough to see a recovery.

But does that mean this will last forever? No. So what might happen with Cineplex stock?

Will Cineplex stock cease to exist?

Cineplex stock isn't likely to go anywhere quite yet. The pandemic could actually help the company get a government bailout and increase its loans to aid in a recovery. This could slow down the process from before the pandemic that saw the company struggle to make ends meet.

Today, the company has closed locations, ended lease agreements, even rented out space. It's finding ways of saving money now in hopes to open up again later. The problem is, the company still has the pre-pandemic problems to deal with. But on the other hand, we are now entering a new Roaring '20s, according to analyst. Canadian consumers have money to blow, have been saving, and paying down debt. Once the vaccine is available, many will be looking for any and all ways to entertain themselves.

So is Cineplex stock cheap?

Let's take a final look by digging into its multiples. Cineplex stock trades at a whopping 33.2 times book value. That is decidedly *not* cheap by today's standards. It will continue to lose money during the pandemic, and it will take years to pay down. Meanwhile, shares are down 20% from highs in June 2020.

On the other hand, the stock is actually up 43% since the crash in March 2020. Long-term investors may pick up this stock and a decade from now be glad they did. You can still take advantage of the Roaring '20s boom if you're patient. And while its P/B ratio isn't good, its price-to-sales ratio of 1.9 is more affordable.

So what it comes down to is your own preference. If you can wait it out, today's share price of $12.50 looks like a steal. You may also receive that enormous dividend the company cut during the pandemic. But if you're looking to sell soon, I wouldn't hold out for a rebound from Cineplex stock.

CATEGORY

1. Coronavirus
2. Investing
3. Personal Finance

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Personal Finance

Date
2025/08/28
Date Created
2021/05/09
Author
alegatewolfe