



Cineplex Stock Stumbles After Earnings But Remains a Top Reopening Play

Description

The cinema sector is one that got hit extremely hard as a result of the pandemic. Lockdown measures and pandemic-related regulations led to the shuttering of most movie theatres globally. In Canada, these restrictions remain in place in most parts of the country and may be slower to be lifted over time.

However, those [bullish](#) on a recovery coming out of this pandemic may want to consider **Cineplex** ([TSX:CGX](#)). Movie theatres remain a hot investment right now for a reason. We're all itching to get out there and get some normalcy back in our lives. Dinner and a movie sound good right about now.

Cineplex's recent stock surge from pandemic lows indicates investors are on the same page in this regard. Here's why there could be more upside with this stock on the horizon.

Earnings underperform on COVID-19 concerns

Cineplex's recent earnings results were underwhelming, to say the least. That said, it appears the market was already expecting these sorts of numbers. Cineplex stock has traded within a relatively narrow band in recent weeks for a reason.

Cineplex's Q1 earnings plunged 85% on a year-over-year basis to \$33 million. Cineplex's top line has dropped by at least 85% for the fourth quarter in a row, as it recorded a net loss of nearly \$90 million in the latest quarter ended March 2021.

As Canada grapples with the third wave of the virus, only 27 of this company's movie theatres remain open across Canada. Moreover, with the lag in the Canadian vaccine rollout, this company's revenue has been impacted significantly.

That said, despite a drop in earnings, this stock is still up by more than 40% year to date. Indeed, many investors still believe Cineplex remains one of the best reopening plays on the TSX today.

Here's why.

There's plenty of room for optimism

Over the long term, there's reason to be bearish on Cineplex. Streaming platforms and in-home entertainment are becoming more and more popular due to the pandemic. However, it appears that investors are not thinking long term right now. Indeed, with Hollywood poised to release some of the most anticipated movies that got delayed, many believe the near-term outlook looks positive for Cineplex.

Movie theatre operators have been reiterating that their operations are much safer when compared to retail stores and restaurants. They believe that since the theatres are spacious, social distancing won't be a problem.

Furthermore, businesses are looking to alter their air-intake system to substantially increase air flow. Such upgrades could go a long way to providing a road map for regulators to open up movie theatres. Should theatres open for the summer movie rush, all may not be lost for Cineplex from a financial perspective this year.

Cineplex remains a high-risk, high-reward play as far as reopening plays go. However, it's a company with some decent upside potential — that is, for the optimists out there.

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