Should Cineplex Stock Be on Your Buy List?

Description

Cineplex (TSX:CGX) had a rough run last year, and most of its cinemas remain closed due to COVID-19 restrictions. As Canada begins to ease lockdown measures, investors are wondering if Cineplex stock is still undervalued and now a buy.

Near-term outlook

Most Canadians over the age of 12 who want a COVID-19 shot will have their first vaccination by the end of the summer and their second dose by the end of the year. Assuming the third wave will be the last major COVID-19 outbreak in the country, Cineplex could potentially have full theatres for the year-end holiday season.

In the coming weeks and months, the theatres will be open at varying capacity levels.

Movie fans who love the big-screen experience could flock back to theatres as soon as they are open again. The pent-up demand could help Cineplex start to recover. Spending on treats, as well as the tickets, might be robust, as people celebrate the return to more normal lifestyles.

With positive reopening momentum in the markets, Cineplex stock could move higher. At the time of writing, the stock trades near $16 per share compared to less than $5 last October.

Risks

Cineplex needs blockbuster movies to draw in the large crowds. Studios put several key releases on hold over the past year or went directly to streaming with the new content. It was a good opportunity to test the strategy of bypassing the theatres, and Cineplex investors need to consider this threat going forward. Even when the studios decide to release new movies through theatres, they are starting to cut exclusive run time for the cinemas before releasing the film on the streaming service. In some cases, the film goes to both distribution platforms at the same time. If people have a choice between going to the theatre or staying at home to catch the newest release, there could be an impact on cinema traffic.

Another short-term concern is the difference in the reopening pace between Canada and the United States. The U.S. is way ahead of its northern neighbour and is a much larger market. Studios might decide to go ahead with popular movie releases in the next few months when they know U.S. theatres will be full. Cineplex would miss out on that action in many of its locations. **AMC**, a meme-stock favourite that owns theatres in the U.S., has soared in recent months, but its valuation appears to be extremely rich today.

The longer-term issues must also be considered. Cineplex's stock had already lost half of its value from the middle of 2017 to late 2019 due to the rise of streaming services. The pandemic proved the value of the streaming model, and movie fans now have more options than ever in the segment.

Takeover potential

Investors might buy Cineplex stock on the hopes of getting a takeover premium. The company had an agreement in place with U.K.-based **Cineworld** before the pandemic that valued Cineplex stock at more than $30 per share. Cineworld walked away from the deal last summer, but a new suitor could emerge. A major streaming company might want to step in an leverage its relationship with subscribers to offer big-screen viewing. Private equity could also make a play for Cineplex. The business has the potential to generate significant cash flow when seats are full and everyone buys expensive oversized soda, popcorn, and candy bars.

The bottom line

Cineplex stock looked like a good reopening pick last fall at $5 per share, but investors should be careful jumping in at the current stock price. The summer will likely be difficult, and there is still a lot of uncertainty around how the theatre business will fare in the next few years.

Traders could certainly make some money on momentum moves, but buy-and-hold investors might want to search for other opportunities in the market today.

CATEGORY

1. Coronavirus
2. Investing

POST TAG

1. Editor's Choice

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

Tags

1. Editor's Choice

Date
2025/07/27
Date Created
2021/06/11
Author
aswalker