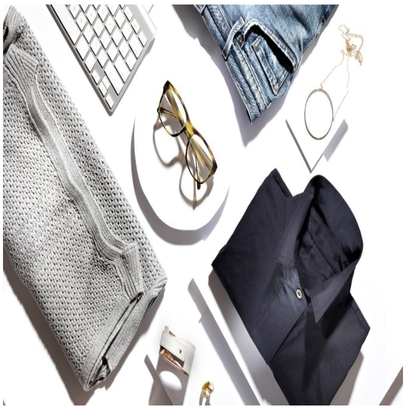

Cineplex (TSX:CGX) Stock Price Could Be Poised for a Big Rally

Description

Cineplex (TSX:CGX) has been one of the worst affected Canadian companies by the COVID-19. The global pandemic and related shutdowns caused big troubles for the company as it reported an adjusted net loss of $629 million last year. While its net losses are expected to significantly reduce this year, it still might take several quarters for Cineplex to return to sustainable profitability.

Before we look at some key factors from its latest earnings event, let’s quickly review its recent stock price movement.

Cineplex stock price movement

Cineplex stock has staged a sharp recovery in 2021 after witnessing a massive 72.6% value erosion in 2020. As of August 16, the stock is trading with about 48% year-to-date gains against a 17.5% rise in the **TSX Composite Index**. CGX stock price has dived by 8% in the third quarter thus far after posting strong gains in the previous three quarters in a row.

Also, the stock is still trading at $13.74 per share, which is significantly lower than its pre-pandemic levels. At the end of 2019, it was trading above $33 per share.

Latest earnings report

Cineplex announced its second-quarter results last week on August 12. The company reported revenue of $64.9 million for the quarter compared to about $22 million in the same quarter a year ago. Its revenue was also better than analysts’ expectations of $60.6 million. Cineplex reopened its entertainment venues and theatres in many provinces during the June quarter as the restrictions continued to ease. The reopening also gave a significant boost to its sales on a sequential basis.

Since the pandemic began, Cineplex’s management has increased its focus on cost reduction efforts. These efforts helped the company restrict its average monthly net cash burn rate to $24 million in the second quarter compared to $27 million in the first quarter. These could be some of the reasons why its stock rose by 8.2% last week.

The recovery could accelerate

While its recent quarterly financial figures might not be remarkable, they clearly reflected that Cineplex is on a gradual path to financial recovery. We must remember that many of its theatres and entertainment venues remained closed during the second quarter. However, the situation improved further in the third quarter. As a result, Cineplex opened all its theatres and entertainment venues from coast to coast on July 17 for the first time in months.

Commenting about these developments, Cineplex President and CEO Ellis Jacob said, “As vaccination numbers rise and restrictions loosen across the country, we expect that by the fall, we will be close to full capacity in time for the onslaught of blockbuster films scheduled for the back half of the year.”

It’s time to buy Cineplex stock

I’ve been skeptical about the expected recovery in Cineplex stock for months. However, its recent revenue growth trend and rising capacity with easing pandemic-related restrictions could help it financially recover sooner than expected. That’s why I believe that Cineplex stock could be poised for a sharp rally which could take it above $20 per share in the coming months.

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