Cineplex (TSX:CGX) Stock: Buy or Sell in 2021?

### Description

Many stocks had explosive starts to 2021, as the TSX steamrolled to multiple record highs. Sadly, the rebound from the pandemic year was uneven. The arts, entertainment, and recreation sector experienced massive disruption due to the COVID-19 breakout.



**Cineplex** (TSX:CGX), an iconic Canadian brand, is one of the lockdown casualties. The federal government ordered business shutdowns early in the pandemic to prevent the spread of coronavirus. Theatres and entertainment venues where people congregate had to stop operations.

Fast forward to mid-July 2021, and Canada's largest movie chain fully reopened. However, the environment, especially for moviegoers, remains a health risk. In the stock market, investors who stayed on with Cineplex enjoy a 40% year-to-date gain. Unfortunately, the business is far, far away from the pre-pandemic levels. It could be unwise to hold on to Cineplex or buy more shares in anticipation of a comeback.

## The business reversal

News broke on March 16, 2020, that Cineplex would close all 165 theatres nationwide. Even its entertainment complexes (Rec Room and Playdium) had to close their doors. It was a shocking moment not only for Cineplex but for investors as well. They knew what was coming next.

Besides the inevitable suspension of dividend payments, the share price sunk sharply. From $20.41 on March 13, 2020, Cineplex fell 54% to $9.33. A string of quarterly losses followed, beginning from Q1 2020 to Q2 2021. Ellis Jacob, Cineplex's president and CEO, said then, "These are clearly unique and unparalleled times."

Management acknowledged the pandemic's material negative effect on all aspects of Cineplex's businesses. They didn't even know then the health crisis would extend this long. The company implemented temporary layoffs of hourly employees and reduced the salaries of full-time employees. Long-term stability is in doubt, even if the economic recovery is underway.

# No turnaround yet

In May 2021, Jacob sounded the alarm and pleaded with federal and provincial leaders to draft a better plan for hobbled movie theatre operators. During the company's annual meeting, he said, "What we need to be able to do is open." Cineplex hopes the federal government extends financial support to help the industry recover.

Jabob's wish came true on July 17, 2021, when Cineplex theatres opened at 50% capacity, or to a maximum of 1,000 guests per movie house. In Q2 2021 (quarter ended June 30, 2021), before the theaters' reopening, total revenue jumped 195.3% versus Q2 2020.

Still, it wasn't a turnaround, as the net loss was 4.8% ($103.7 million) higher than the net loss in the same quarter last year. The quarter's highlight was the 142% increase in box office revenues per patron (BPP). Jacob was quick to say, "The big screen is back!"

# Prepared for a strong comeback

Cineplex's top priority is to control costs, solidify liquidity and financial position, according to Jacob. He added the company wants to set the stage for a strong comeback. The share price has gone up to as high as $14.67 on March 15, 2021, before the downward trend began.



While market analysts do not recommend a strong buy rating, they see a return potential of nearly 17% in the next 12 months. Cineplex's future growth hangs in the balance because the world is nowhere near the pandemic's end game. Another threat to the business is more content moving to streaming. I will avoid Cineplex for now due to these reasons.

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