Cineplex Stock: Time to Bet on a Recovery?

Description

Most Canadian provinces have relaxed COVID-19 related restrictions in the last two months. As businesses reopen and consumer spending experiences an uptick, should you invest in post-COVID-19 stocks such as **Cineplex** (TSX:CGX)? A top-tier Canadian brand operating in several verticals such as entertainment and content, amusement, leisure, and media, Cineplex is currently valued at a market cap of $814 million.

While the Canadian stock is up 53% in the last year, it has lost over 60% in market value since September 2018. Let's see if this **TSX** stock should be part of your portfolio right now.

Cineplex experienced a massive decline in sales last year

Cineplex reported sales of $418 million in 2020 which was a significant decline compared to sales of $1.66 billion in 2019. The indoor entertainment sector was among the worst-hit amid the pandemic and Cineplex had to consider several cost control measures to reduce mounting losses.

It worked with landlords and real estate partners to abate and defer lease costs. Cineplex's operating costs were lower due to employee layoffs as well as voluntary salary reductions. It also benefitted from government wage subsidy programs and targeted negotiations with key suppliers.

Cineplex is the largest motion picture exhibition company in Canada and enjoyed a market share of 75% at the end of 2019. With over 160 theatres and 1,651 screens, its box office revenue stood at $706 million in 2019. Comparatively, its theatre food revenue stood at $447 million in 2019 and grew at an annual rate of 4.7% since 2010.

Analysts tracking Cineplex stock expect sales to rise by 69.3% year over year to $708.2 million in 2021 and by 108% to $1.47 billion in 2022. However, this will still be lower than the company's sales reported in 2019. But the revenue growth will allow Cineplex to improve its bottom line from a loss per share of $9.93 in 2020 to earnings of $0.12 per share in 2022.

What next for CGX stock?

In the second quarter of 2021, Cineplex sales almost tripled to $64.92 million. However, its operating loss widened to $103 .7 million, wider than its loss of $98.23 million in the year-ago period. While the entertainment giant might seem undervalued given its current market cap and a forward price to 2022 sales multiple of 0.60, investors should also consider its high debt balance of $1.92 billion.

While Cineplex has enough liquidity to tide over the ongoing uncertainty, the company remains vulnerable to macroeconomic shocks. The Delta variant has wreaked havoc worldwide, resulting in a steep rise in COVID-19 infections. If we experience another round of lockdowns, it will result in a sell-off for Cineplex stock.

Another long-term headwind for Cineplex is the accelerated shift towards streaming solutions. There is a good chance that theatre capacities will not reach pre-COVID-19 levels due to the cord-cutting phenomenon.

Analysts tracking Cineplex stock have a 12-month average target price of $15.35, which is 20% higher than its current valuation.

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