Cineplex: Is it Finally Time to Buy CGX Stock?

Description

Cineplex (TSX:CGX) has tripled off its price from the middle of October last year. Investors who had the courage to buy in the darkest hours are already sitting on some nice gains. Those who missed the rally are wondering if CGX stock is still undervalued and offers decent upside potential.

Theatre rebound

Despite the surge in the Delta variant, improved vaccination rates are giving the provinces the confidence to keep businesses open across Canada. Cineplex has had all of its Canadian theatres showing films since the middle of July and is looking for innovative ways to get people back into the theatre to watch movies on the big screen.

The company launched a new subscription plan it calls CineClub. Movie fans pay $9.99 per month and get one monthly regular admission ticket plus a 20% discount on the treats. That's a good deal as long as you intend to take in 12 films per year.

It will be interesting to see if the promotion takes hold. The first indication should be evident when Cineplex reports the Q3 2021 numbers.

Recent theatre success of big films suggests people are eager to get out of the house. **Sony** said its latest *Venom* movie was a huge hit over its first weekend of showings. The movie delivered better opening weekend sales than the initial film in the series that was released in 2018.

Sony made the film available exclusively in theatres, rather than releasing it on streaming services at the same time. The latest *James Bond* film is also putting up big numbers in international markets. This is the final Bond flick with Daniel Craig as the lead character. It is also being released exclusively in theatres at the outset.

Streaming threat

The pandemic gave studios a chance to test a direct-to-streaming model for new movies. Some bypassed theatres completely while other have gone with simultaneous releases. Exclusive runs in theatres with shorter time periods before the online availability are also occurring.

The next year will provide a better picture of where the industry is headed, but early indications suggest the studios have realized that simultaneous releases drive down theatre sales. The cannibalism might be large enough that the theatre chains are going to catch a break. Recent blockbuster success in theatres could drive a reversal of the pandemic trends. The return of exclusive theatre rights for reasonable time periods would be positive for Cineplex and its investors.

Is Cineplex stock now a buy?

The surge in the Delta variant in some parts of Canada is a reminder that the entertainment industry isn't out of the woods. New restrictions could be put in place if healthcare systems once again reach their breaking points.

However, vaccination rates are still grinding higher, and that should eventually lead to manageable COVID-19 numbers, so businesses can safely open up and remain at 100% capacity.

Cineplex trades for close to $13.50 at the time of writing. The stock has been as high as $16.75 in 2021 and was above $30 per share before the pandemic. A bounce back toward the 2021 high is certainly possible on positive Q3 results. Prior to the crash, Cineplex had agreed to a takeover offer from U.K.-based **Cineworld** for a price of about $34 per share. With the industry getting back on its feet and studios hitting the breaks on simultaneous streaming releases, a new suitor could emerge.

Investors might not see a spike back to $30, but it wouldn't be a surprise to see a deal around the $20 mark.

I wouldn't back up the truck, as the long-term viability of the business model remains unclear, but theatre bulls might want to start nibbling at the current level.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

8. Yahoo CA

PP NOTIFY USER

1. aswalker
2. kduncombe

Category

1. Investing

Date
2025/08/26
Date Created
2021/10/04
Author
aswalker