Cineplex (TSX:CGX): Is it Time to Buy the Stock?

Description

Cineplex (TSX:CGX) stock is trading for $14.26 per share at writing, up by 200% from its October 16, 2020, low. Investors who'd picked up shares of the company during that time already have plenty of gains from its upward movement from last year. The investors who missed out on the rally might be wondering whether it is still an undervalued stock with substantial upside potential.

Today, I will discuss the beleaguered cinema operator to help you determine whether it might be the right time to buy its shares to realize significant capital gains in the future.

Returning to the cinemas

At its current share price, Cineplex stock is down by just over 73% from its all-time high in April 2017 and by almost 57% from its pre-pandemic high. Most investors have remained wary of investing in a theatre chain due to obvious reasons. Theatre companies cannot generate significant revenues when nobody wants to go to cinemas to watch their favourite movies due to health concerns.

However, the rising vaccination rates worldwide and in Canada are proving positive news for the industry. Despite the surge in Delta variant cases, the ongoing vaccine rollout has allowed Canadian provinces to keep businesses open throughout the country.

Cineplex might not have seen as much foot traffic as it did before the pandemic, but the company has kept all of its venues open since the middle of July. The company has been looking for more ways to combat the lower foot traffic by encouraging people to come back to theatres to watch movies.

One such initiative taken by the company was to introduce its customers to CineClub. Movie fans will pay $9.99 per month to get a regular admission ticket every month with a 20% discount on treats. The promotion has the potential to drive people to cinemas, but it remains to be seen whether it will be successful.

Movie studios are also releasing new films exclusively in theatres to contribute to better ticket sales on the box office instead of simultaneous releases on streaming platforms. The results have been excellent so far, with the likes of the latest *James Bond* movie and *Venom* movie performing well in theatres.

A new rising threat

It is no secret that the pandemic led to a massive boost for streaming service providers. With theatres remaining closed, many of the biggest movie studios considered giving the direct-to-streaming model for new releases a chance.

Some movie studios saw big titles released simultaneously in theatres and streaming platforms, while others entirely circumvented theatre releases. A few movies have been released exclusively in theatres for a short time before being made available for streaming online.

One fact to come out of all of this is a significant decline in theatre ticket sales for movies due to streaming services providing a more convenient method to would-be movie-goers. Depending on when movies begin releasing exclusively in theatres, we could see Cineplex mitigate the lost income due to the rising streaming platform popularity.

As things stand, releases on streaming services are eating into the potential revenues for cinemas.

Foolish takeaway

The resurgence of COVID-19 cases in the fourth wave is a reminder that the world is still a long way from coming out of the pandemic era. The threat of new restrictions could see the likes of Cineplex enter uncertain territories again.

So far, the situation seems largely favourable for cinemas. As vaccination rates continue to rise, it is likely for businesses to remain open at 100% capacity soon. While Cineplex stock might not immediately reach its all-time high valuation, it is possible for the stock to climb to its pre-pandemic highs as conditions improve.

At $14.26 per share, the stock could be a steal for investors with a bullish outlook on the cinema industry.

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