Cineplex Stock: Will the Tides Finally Turn in 2022?

Description

Cineplex (TSX:CGX) stock has been tough to get behind with the ongoing COVID pandemic, which may or may not be far from over heading into 2022. In Europe, things aren't looking great, with lockdowns going in Austria and Germany possibly following suit depending on how much worse things get. Indeed, the last thing Canadians want is more lockdowns, especially since many of us thought that the worst is already in the rear-view mirror. Indeed, inflation is a bigger concern to investors these days.

While inflation may not be as benign as the U.S. Federal Reserve believes (only time will tell!), I do think it's a mistake to shrug off COVID risks or conclude that we're experiencing the last of its economic disruptions or the worst it has to offer.

Cineplex: Don't discount COVID risks yet!

Inflation may be a mere side effect of more economic damage that could be on the horizon. In any case, employment is a top focus of the Fed. And if things get uglier again, tightening and tapering may very well be halted. For a company like Cineplex, which requires the economy to be open, the risks still could not be greater. Another variant more insidious than Delta could hit and spark lockdowns despite vaccination efforts and enhanced safety practices like social distancing and masks.

It's tough to take a huge step back when we've already taken so many forward steps over this past year. Undoubtedly, many moviegoers are just starting to return to the big screen, with numbers modestly showing signs of meaningful improvement.

Still, all it takes is another month or two of lockdown to undo all the progress. And Cineplex could find itself in hot water as it looks to raise cash to keep its business afloat in what could be another round of this crisis.

Cineplex: Not everyone's cup of tea

Investors don’t need to jump in at ground zero of the pandemic, with such sensitive reopening plays. But at current valuations, it certainly seems like a lot of negatives are already baked in, especially with the COVID resurgence in Europe. Indeed, a variant spreading in Europe isn’t guaranteed to cause an outbreak in Canada. Still, such risks pose a plausible threat to firms like Cineplex.

In any case, liquidity should be there if Cineplex were to need it. Whether or not another year or two of intermittent lockdowns are in the cards, Cineplex is still likely to make on the other side of this pandemic alive. For now, investments in amusements will be shelved for the most part, while other initiatives like Cineplex’s subscription service should help it stay afloat in a worst-case scenario that sees Canada begin to roll back reopenings over the next month or so.

The bottom line on CGX stock

At $13 and change per share, CGX stock boasts a two times sales multiple. Investors may view the name as a value trap, but with oral COVID treatments and many more advances in the fight between treatments/vaccines and variants, the risk/reward seems solid for those willing to take a risk heading into 2022.

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