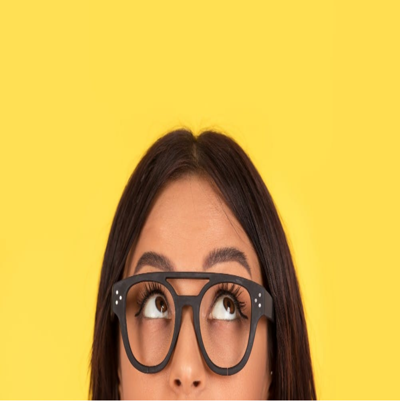

Should You buy Cineplex (TSX:CGX) After its Court Win?

Description

Imagine if there were an award for the company that has suffered the most since the pandemic started. If that were the case, **Cineplex** (TSX:CGX) would surely be a finalist. Unfortunately, a recent courtroom win for Cineplex will be short-lived. The company is still a long way off from its much-hyped recovery. Does this mean you should buy Cineplex now?

Let's try to answer that.

Cineplex got the win

Back in 2019, before the COVID-19 pandemic altered every business on the planet, Cineplex was gearing for a major shift. U.K.-based Cineworld had just made an offer to buy Cineplex. The whopping $2.8 billion deal reflected an over 40% premium on Cineplex's stock price of $34 at the time.

In the face of increasing competition from streaming services, the deal was a unique opportunity to buy Cineplex.

But then the pandemic started.

Fast forward to June 2020, and with theatres shuttered across the country, Cineplex's revenue (and, by extension, its stock price) plummeted. During the pandemic, Cineplex did what all businesses did to survive. Often that meant being forced to defer paying some of its bills, including landlords, studios, and others.

That's when Cineworld backed out on the deal. Cineworld claimed that Cineplex's actions were prone to "material adverse effects and breaches."

As a result of backing out of the deal, Cineplex sued Cineworld for a whopping $2.18 billion in damages. As expected, Cineworld filed a countersuit.

Under any ordinary operational environment, Cineplex's actions to defer payments could be construed as a poison pill to a suitor. But during a pandemic, those actions were far from irregular. In legalese, you could say they were “ordinary course” given what the whole market was going through.

That’s precisely the path that the Ontario Superior Court of Justice took in its ruling last week. Cineworld’s counterclaim was denied, and Cineplex was awarded $1.24 billion in damages.

Cineplex got the win. Cineworld was also ordered to pay $5.5 million in lost transaction costs. The company stated it would be appealing the decision, which could be precedent-setting.

Cineplex is still losing another (bigger) war

Despite the win in the courtroom, Cineplex has a much larger war to win. There has been an influx of new streaming services launched in the past year. Additionally, many of those new streamers have multi-billion-dollar studios pegged to them. As a result, there are a growing number of direct-to-streaming releases. Additionally, the industry as a whole is still reeling from the ongoing effects of the pandemic.

Most theatres are open and operating at near capacity, but that hasn’t translated into people feeling comfortable returning to theatres. Throw in the growing fears around the Omicron variant, and there’s a longer recovery for Cineplex than previously thought.

That’s not to say Cineplex hasn’t already seen some improvement. The company announced third-quarter results last month. In that quarterly update, Cineplex saw revenue hit $250.4 million, reflecting a solid 310% increase over the prior period. Concession sales also came in notably higher, posting an over 500% improvement over last year, coming in at $70.9 million.

Overall, Cineplex reported a net loss of $33.6 million. On a per-share basis, that loss worked out to a $0.53-per-diluted-share loss.

Should you buy Cineplex?

Cineplex may have won a legal battle with Cineworld, but the company is still far off from any long-term recovery. Cineplex still trades at a huge discount over its pre-pandemic self. The company also no longer offers the juicy monthly dividend it once did.

In my opinion, unless you’re already invested, there are far better options to consider.

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