Cineplex (TSX:CGX) Stock: Should You Buy Now?

Description

Cineplex (TSX:CGX) recently won an important court case that briefly sent the stock soaring. New COVID-19 restrictions across Canada, however, could put the important holiday cinema season at risk, and investors are wondering if CGX stock is a good contrarian buy right now.

Cineplex court decision

In December 2019, Cineplex agreed to be acquired by U.K.-based **Cineworld** for $34 per share. That was a 42% premium to the price of the shares before the announcement. Shortly afterwards, however, the pandemic arrived, and in June 2021, Cineworld backed out of the deal, citing breaches on the part of Cineworld in the merger agreement.

Cineplex stock had already fallen off a cliff and eventually dipped below $5 per share in October last year before rebounding above $16.50 in the spring of 2021. Cineplex took Cineworld to court saying the deal should go through as agreed.

A recent decision by the Ontario Superior Court of Justice awarded Cineplex $1.24 billion in damages. Cineworld intends to appeal the ruling, so the drama isn't over.

Cineplex stock initially jumped from $11.77 to $14 per share on the news but has declined in recent days. At the time of writing, the stock trades near $12.50 per share. That gives Cineplex a market capitalization of about $800 million.

Investors who are of the opinion the appeal will fail and that Cineplex will receive the money see good value in the stock at the current price. It's tough to say how the story will end. One scenario could be that a new deal will emerge at a price that is less than the original agreement, but much higher than the current value of the company.

Cineplex outlook

The new capacity restrictions put in place across Canada will hit Cineplex's holiday revenues, and there is uncertainty around how long the measures will last or if total lockdowns could be on the way again, as Omicron cases ramp up in the coming weeks.

The arrival of Omicron is an unfortunate hit to Cineplex, as film studios have increased their cinema releases of major films and moviegoers have started returning to theatres. The threat of streaming services still looms, although it appears the studios have realized that releasing a new film in cinemas and online at the same time cuts into sales and are easing off their shift to completely bypass the theatres.

One positive note in recent days suggests film fans still want to get the big-screen experience. The new *Spiderman* movie just pulled in US$260 million in its opening weekend. That's the second-best result of all time. The theatre success of *Spiderman* will likely result in more studios giving theatres the first crack at new films before releasing the content on the streaming services.

Should you buy Cineplex stock now?

The court win and the strong theatre showing of a new blockbuster film should be positive for Cineplex stock in 2022, and these events could limit the downside risks, as the market tries to decide how big a threat the Omicron variant will be in the coming weeks and months.

If you have a contrarian investing style and like the prospects of the cinema industry in the coming years, the stock might be attractive right now. That said, I would probably take a half position and look to add on any further weakness that might occur if new lockdowns are imposed in January.

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