



Is Cineplex (TSX:CGX) Worth the Risk?

Description

There's no such thing as a stock that doesn't carry at least some risk. Seasoned investors will often be quick to remind some of the links between risks and rewards. But does that apply to all [investments](#)? When it comes to **Cineplex** ([TSX:CGX](#)), is an investment in the company really worth the risk?

Let's try to answer that question.

Risk vs. reward: Time to set expectations

There's an old saying that goes something like this: the greater the risk, the greater the reward.

Unfortunately, that's not always the case. Some investments are rife with risk and will take nothing short of a miracle for any type of reward. Others can offer some reward with very little risk. Whether or not Cineplex is worth the risk isn't as clean cut. Where exactly does Cineplex fall?

In short, Cineplex has more than its share of problems. Canada's largest entertainment company has seen its theatre audience shrink during the pandemic. Following a dismal set of results in 2020, the figures for 2021 do show some improvement.

Theatre attendance in the third quarter of 2021 topped 8.3 million. By way of comparison, during the height of the pandemic in 2020, theatre attendance was just 1.6 million. Oh, and in case you were curious, the pre-pandemic number from the same quarter in 2019 was 17.5 million.

So, in other words, despite the whopping gains in attendance in the most recent quarter, Cineplex is still welcoming less than half of the customers it once welcomed. And that has a domino effect on other areas of the operation, such as concessions.

More importantly, despite the improvement, Cineplex is still burning cash. By way of example, in the most recent quarter, Cineplex averaged a monthly net cash burn of \$2.9 million. This is down considerably from the \$24 million average monthly net cash burn reported in the prior quarter.

But wait — there are more problems!

Cineplex has been (rightly) focused on the impact that the pandemic has had on its bottom line. The company was forced to make some hard decisions on staffing and even eliminated its dividend. But there's another problem causing a longer-term issue for the company. Customers are now less willing to pay an admission cost and purchase concessions than in the past.

Part of the reason for that is the emergence of multiple streaming outlets in the past few years. Additionally, many of these streamers are backed by multi-billion-dollar studios that are churning out content. Suffice to say, much of that new content is now exclusive to streaming subscribers. This bypasses the exclusivity appeal that the movie-and-popcorn business once held.

If that weren't enough, the monthly cost for unlimited access to a library of content is less than the price of a single admission ticket. Throw in the growing number of devices that can now stream content and you have a compelling case for Cineplex.

That's not to say Cineplex hasn't tried to innovate. The company has had success with some initiatives, such as its digital media segment and its Rec Room business. Both are looking to diversify Cineplex's revenue stream away from an overreliance on the theatre business.

Is Cineplex really worth the risk right now or ever?

The root problem with all things Cineplex is *time*. The movie-and-popcorn may return to pre-pandemic levels, but not for a considerable time. Even worse, with the Omicron variant now making the rounds, fears of another lockdown and reset are growing. This will only delay any possible recovery well beyond 2022.

Even then, getting patrons back into theatres is something that will remain a conflicting and personal choice for those customers. Not everyone will feel comfortable, at least right away. It will take time.

There will be exceptions to that. Just before Christmas, *Spiderman: No way home* opened to a whopping US\$260 million in North America alone. That was the best opening since pre-pandemic *Avengers: Endgame* was released in 2019. Again, that is the exception, not the norm.

In my opinion, unless your investment horizon is extremely long term, Cineplex is not worth the risk. There are far better investments on the market now, many of which [still offer a tasty dividend](#).

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