How Cineplex Stock Is Placed in 2022

### Description

The year 2021 was much better for the Canadian theatre giant **Cineplex** (TSX:CGX) than 2020. In 2021, it saw relatively better days, a legal win against **Cineworld Group**, and more theatres resuming operations. All that helped uplift investor sentiment to some extent, with which the stock gained 47% in 2021. That's a decent outperformance relative to the TSX Index's 20% gain last year.



## CGX stock in 2021

Cineplex operates 1,656 screens at 161 locations. After months of closure, the company resumed operations in July at all screens with capacity restrictions. That's why it has seen a decent increase in revenue growth in the last two quarters.

Last year, Cineplex saw a more than 80% decline in theatre revenues against 2019. However, as restrictions waned, revenue has jumped by more than 250% year over year in the last two quarters. However, it has posted a net loss of $228 million in 2021.

While the theatre attendance is still way below pre-pandemic levels, and the Omicron situation may dent the situation further, revenue growth could get better this year.

In addition, Cineplex's balance sheet situation relatively improved recently relative to 2020. Employee layoffs and deferment of lease costs notably helped it in 2021. In the third quarter of 2021, its net cash burn stood at around $2.9 million compared to $24 million in the earlier quarter.

## Uncertain revenue growth and weakened balance sheet

Cineplex recently received a favourable judgement from the Ontario Superior Court of Justice against its legal battle with Cineworld Group. The legal win is mainly important, because the court awarded CGX compensation of $1.24 billion from Cineworld for aborting the deal to acquire Cineplex in June 2021. The compensation could allow some breathing space for the company until foot traffic at the movie theatres stabilizes.

A more severe challenge could be the increased competition from the OTT platforms. While a larger number of theatres resuming operations is certainly a positive development for Cineplex, there will likely be a significant portion of movie goers that will enjoy movies at home.

The mutating variants of the coronavirus only upset the situation further. For Cineplex, that means a slower revenue and earnings recovery, more cash burn, and more pressure on shareholder returns.

At the end of Q3 2021, the company’s total debt stood at $1.87 billion, implying a debt-to-EBITDA ratio of 9.4. Cineplex’s debt-to-EBITDA ratio represents leverage more than doubled relative to the pre-COVID period.

It is an important leverage ratio that indicates how many years a company would take to repay debt using EBITDA. High-debt companies have higher debt-servicing costs that dent their profitability.



## Should you buy CGX stock?

Cineplex could see continued revenue increase in the next few quarters amid full re-openings. However, the company could take a long time to return to profits and strengthen the balance sheet. So, even though CGX stock outperformed broader markets in 2021, it involves a huge opportunity cost holding onto it in 2022.

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