Is Cineplex (TSX:CGX) Stock Worth Buying in 2022?

Description

2020 came along with the onset of COVID-19, and it devastated the performance of many companies that could not adapt to the new normal. **Cineplex** (TSX:CGX) is an $807.85 million market capitalization giant in the theatre industry, and 2020 was a brutal year for the company. 2021 saw things turn around, as theatre operations resumed, and investor sentiment about the company improved.

At writing, Cineplex stock is trading for $12.84 per share, and it is up by 31.83% year over year. The **S&P/TSX Composite Index** has gained 17.50% during the same time, and Cineplex stock has managed to outperform the broader Canadian market.

The question is whether Cineplex is an undervalued stock worth buying right now or if it's a mistake you should avoid at all costs. Today, I will take a closer look at the situation to help you make a more informed decision.

Cineplex stock's performance last year

Cineplex is a massive name. The company owns and operates 161 locations throughout the country, boasting over 1,600 screens. The onset of COVID-19 resulted in theatres closing down for several months. And when theatres opened, Cineplex was limited to a restricted capacity on all its locations. Re-opening with even a limited capacity was a welcome change, bringing decent revenue growth for the last two quarters of fiscal 2021.

The company's revenues surged by over 250% in the last two quarters, year over year. Despite the uptick in its cash flows, the company reported a net loss of almost $230 million in 2021. Theatre attendance has been low, despite easing restrictions, and the arrival of the Omicron variant may cause further problems. However, revenue growth can still improve for the battered theatre giant this year.

Cineplex has managed to improve its situation compared to what things were like in 2020. It has a better balance sheet now, and its net cash burn in Q3 2021 was down to $2.9 million — an improvement from $24 million in the preceding quarter.

A win on another front

Cineplex stock was under pressure as **Cineworld** was acquiring it. However, the latter eventually aborted the acquisition deal, resulting in a lawsuit between Cineplex and Cineworld. The Ontario Superior Court of Justice ruled in favour of Cineplex, awarding the company with a compensation of $1.24 billion due to Cineworld abandoning its acquisition deal.

The compensation comes in as a sigh of relief for Cineplex, because it can use it to keep the situation more manageable until foot traffic to theatres improves.

Foolish takeaway

Despite the possibility of continued revenue growth and full re-openings, it could be considered a risky move to place complete faith in the company right now. If new mutations of the virus make matters worse, the revenue growth and earnings recovery could become slower, the company might have to contend with high cash burn for a longer time, and it could negatively impact its performance in the near term.

While Cineplex stock outperformed the broader markets last year, holding onto it could result in losses in 2022.

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