Should You Still Buy Cineplex (TSX:CGX) in February?

Description

Few companies have endured as much as **Cineplex** (TSX:CGX) since the pandemic began. But now that cases are dropping, and a potential end to the pandemic nears, could it be time to buy Cineplex in February?

Let's take a look at whether Canada's largest entertainment company warrants a place in your portfolio.

Cineplex has a host of troubles not called COVID

To be fair, all companies have struggled since the pandemic started. Some are only just seeing some of those troubles emerge now. But when it comes to Cineplex, one thing that investors seem to forget is the troubles that existed *prior* to the pandemic. If anything, things have only intensified since the pandemic.

Cineplex has a straightforward business model. It charges patrons admission to see a show, and then charges them for concessions. That movie-and-popcorn business model has worked out well for a century, but in the past decade, it has come under threat from the streaming business.

Streamers take the movie-and-popcorn business to the next level. In short, they charge subscribers a monthly rate that costs less than a single Cineplex admission ticket. That rate includes unlimited access to a massive library of content. Perhaps best of all, that content can be streamed to any device from anywhere.

Unfortunately, the pandemic exasperated those concerns. It created the perfect climate for additional streamers to emerge to the market. Those studios are now churning out content that will never make it into theatres.

To counter that concern, Cineplex started to diversify into other areas, such as Cineplex's digital media segment. The unit provides digital menu screens for a growing number of fast-food restaurants both in Canada and abroad.

Then there's the Rec Room. Rec Rooms are large multi-configurable entertainment venues that host parties and events of varying sizes. They offer live entertainment, games, and full menu service. Prior to the pandemic, Rec Room sites were seeing strong growth.

Cineplex was in the process of building additional locations across Canada, but the pandemic but the brakes on that initiative. But is that enough for investors to buy Cineplex in February?

Are those initiatives enough?

Cineplex's attempts to diversify are encouraging, and they do represent what is the right thing for the company. That being said, Cineplex still has a long way to go. To illustrate that point, let's look at the most recent quarterly update from earlier this month.

In that quarter, Cineplex reported total revenue of $300 million, representing a massive bump over the $52.5 million reported in the same period last year. Theatre attendance came in at 10.2 million for the quarter, bettering the 800,000 reported last year.

Despite those impressive gains, Cineplex still reported a net loss of $21.8 million for the quarter. While this is a massive improvement over the $230.4 million loss reported in the same period last year, it's still worrying.

Those revenue numbers reflect the partial (and ongoing) slow re-opening of theatres. The report, which reflects results to the end of 2021, includes some of the most highly anticipated movies of the year. This includes *No Time to Die*, *Eternals*, *Venom: Let There Be Carnage*, *Shang-Chi and the Legend of the Ten Rings*, and *Spiderman: No way Home*.

Those five highly anticipated blockbusters collectively grossed over US$1.1 billion at the box office but still couldn't push Cineplex into the black.

Let's also not forget the growing debt Cineplex has taken. Despite eliminating its dividend and slashing costs, the company now has a staggering $1.8 billion of debt. That's hardly a reason to buy Cineplex in February, or ever.

Final thoughts: Should you buy Cineplex in February?

Cineplex has done everything it possibly can to endure. Furthermore, there's no doubt that the company will continue to improve as its business reopens and roars back to life.

But is that enough for investors to buy Cineplex in February?

In my opinion, the answer is no. There are far better options to buy now, many of which still offer a dividend.

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