



Why I Will Not Buy Cineplex (TSX:CGX) Yet

Description

The roller coaster that is 2022 continues to provide ample volatility across the market. That uncertainty also provides investors with ample [opportunities to invest](#) in some stellar stocks at discounted prices. Not all discounted stocks are great buys. There are some that I still will not buy anytime soon.

When is a turnaround enough to buy in?

When the pandemic drastically changed the way we work, learn, and live, some sectors of the market were impacted more than others. Anything reliant on gatherings of people in confined spaces took a heavy hit. Think sports, concerts, travel, and entertainment. That latter category includes movie theatres, and, by extension, **Cineplex** ([TSX:CGX](#)).

Cineplex is the largest movie theatre chain in the country and, pre-pandemic, the company was diversifying itself outside that core business. The movie-and-popcorn business has been on a slow decline for a decade or more, largely in part to streaming services.

That decline accelerated during the pandemic when theatres remained closed. Coincidentally, during the same period, the number of streaming services on offer increased. Adding to those woes, those streaming services have dedicated studio budgets and are churning out exclusive content.

In other words, they aren't just pushing out already released content. Oh, and let's not forget that for the price of a single movie ticket and popcorn, you can subscribe to multiple streaming services — unlimited streaming and thousands of titles from any device. For a family movie day, there really is no comparison.

With consumers constantly looking at ways to rein in costs, that's a hard sell. This leaves Cineplex in a strange position where it can't match on value or exclusivity. While it can surpass on experience, it comes at a much higher cost.

What happened to that expected turnaround?

Ah, yes! The turnaround of Cineplex. That could still come — just not in the next quarter. Coincidentally, Cineplex announced results for the most recent quarter today.

In that quarter, revenue figures across multiple areas saw substantial growth, which came thanks to theatres finally opening fully to customers. Specifically, box-office revenue came in at \$12 per patron, whereas concession revenue per patron came in at a quarterly record of \$8.82 per patron. In the same period last year, box-office and concession revenue amounted to \$9.20 and \$6.12 per patron, respectively.

Overall, Cineplex saw revenue climb to \$228.7 million. By way of comparison, in the same period last year, Cineplex posted revenue of just \$41.4 million. Those revenue figures will continue to climb, and Cineplex may yet turn a profit, but does this make it a good buy?

I will not buy Cineplex yet: Will you?

No investment is without some risk, but when it comes to Cineplex, that risk is substantial. The company is still reeling from the pandemic-induced closures that decimated its business. During that same time, multiple streaming services have filled the entertainment gap left by theatres.

Even Cineplex's options at diversifying, specifically its growing network of Rec Room venues was put on hold during the pandemic.

In short, Cineplex may make a recovery over the long term, but investors shouldn't expect this to be the same company it once was. Most of its defensive appeal is lost, the [dividend](#) is no more, and it remains a volatile investment that many risk-averse investors will not buy, at least not yet.

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