New Investors: Still Pondering Cineplex (TSX:CGX)?

Description

There are very few if any businesses that have suffered as much during the pandemic as entertainment companies like **Cineplex** (TSX:CGX). In fact, Cineplex's entire business model depends heavily on groups of people gathering in enclosed spaces. But now that the pandemic is ending, investors that are still pondering Cineplex have a decision to make.

Is Cineplex finally a good buy for any portfolio? Let's try to answer that question.

The case for investing in Cineplex

On the one hand, looking solely at price, Cineplex has dropped considerably. In the trailing five-year period, the stock has plummeted by over 75%. That represents a whopping opportunity for long-term and new investors.

Also worth noting is that much of that decline came from the pandemic-era closures that crippled Cineplex's business. During that period, Cineplex was forced to slash costs and reduce staff. Additionally, studios stopped churning out content for theatres. Some studios built their own streaming services to bypass the movie-and-popcorn business altogether.

Now that restrictions are easing, and the pandemic appears to be coming to an end, there are noticeable changes. Studios are releasing content again in theatres. That includes some anxiously awaited titles like *Minions: The Rise of Gru* and *Top Gun: Maverick*. Both were originally set to be released well over a year ago.

In terms of a bottom-line recovery, we still have a few weeks until Cineplex's next earnings report. Instead, let's look at the most recent report from the first fiscal back in March.

In that quarter, Cineplex saw revenue numbers surge by 452% to $228 million over the prior period that was under pandemic closures. Theatre attendance also increased significantly in the most recent quarter to 6.6 million patrons. In the prior quarter, Cineplex only welcomed 415,000 patrons.

Despite those solid improvements, Cineplex still posted a net loss of $42.2 million for the quarter. In the prior period, that loss was harsher — the first quarter of 2021 resulted in a net loss of $89.6 million.

Looking forward, Hollywood will continue to roll out new content. Patrons will become more comfortable in returning to theatres, and Cineplex will return to profitability.

Are you still pondering Cineplex as an investment? Let's look now at the other case.

The case for avoiding Cineplex (for now)

There's no doubt that Cineplex has started down the path to recovery. What that recovery does not consider is the growing preference for streaming. Demand for streaming services was present well before the pandemic and has only grown since then.

In fact, there are more streaming services on the market today than there were two years ago. More importantly, those streaming services are backed by multi-billion-dollar studios. Those studios are now churning out new content. Much of that content is exclusive to streamers.

This makes it hard, if not impossible for Cineplex to compete on a value level. For the price of a single admission ticket, a patron can subscribe to a month of unlimited service on several different streaming platforms. Customers returning to theatres won't solve that problem.

To be fair, Cineplex has made strides to reduce its dependency on that legacy movie-and-popcorn model. The company's digital media business is promising. The same could be said of its Rec Room entertainment venue business, which can now resume its pre-pandemic growth.

But are any of these enough to pull the company into the black and propel its stock price up to pre-pandemic levels? Oh, and let's also not forget that Cineplex axed its dividend. That's unlikely to re-emerge.

Are you still pondering Cineplex as an investment? Some final thoughts

No investment, even the most defensive is without risk. In the case of Cineplex, that risk is higher than most investors will want to take on right now. Fortunately, there are other stocks that offer far more (including a dividend) and are more secure than Cineplex right now.

In my opinion, unless you're already invested waiting for that eventual (long-term) recovery, it's best to look elsewhere.

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Date
2025/07/26
Date Created
2022/07/21
Author
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