Cineplex (TSX:CGX) Is Finally Turning a Profit: Buy the Stock?

Description

The entertainment sector, or more accurately, theatres, saw their business decimated during the pandemic, and many of them are still reeling from the damage done in 2020. People started relying on streaming services and watching movies from the comfort and safety (from COVID) of their homes. As a direct consequence, streaming stocks like **Netflix** went up when cinema stocks were going down.

Now, the tables have turned. The fear of pandemic is now behind us, the restrictions are mostly lifted, and life has gone back to normal pre-pandemic days (with some exceptions). People are reverting to old habits, like going to theatres to watch new movies. The attendance in theatres is increasing, and, as a direct consequence, so are the revenues of theatre companies like **Cineplex** (TSX:CGX).

A profitable quarter

Cineplex finally turned things around in the second quarter of 2022 and has posted revenue growth of almost 439% and a net income of $1.3 million after two years of consecutive losses. The net loss in the second quarter of 2022 was $103 million, which shows how far the company has come along in its financials.

The revenue and net income growth are a direct result of growing theatre attendance numbers, which have seen 10 times growth from the second quarter of 2021. And if this trend continues, the company may see a significant rise in the net income next quarter. The attendance numbers are higher than in the first quarter of 2020 but about 3.9 million less than in the first quarter of 2019.

And if the attendance reaches those levels in the next quarter, it would be enough to boost investor confidence quite significantly. The company is also waiting for a huge settlement from **Cineworld Group**, an entertainment conglomerate from England that proposed to buy Cineplex but pulled out of the deal.

If the settlement is finalized in favour of Cineworld, the financial boost alone can catapult its stock to new heights.

Should you buy the stock?

The current outlook of the company seems positive and appealing. It may win the settlement, and more people are going to theatres. But how far can this sentiment carry the stock forward? It's currently trading at a 56% discount from its Nov. 2019 value before the Cineworld offer pushed the stock up. So, if it reaches the last "normal" price, you may be able to double your capital.

But the long-term prospects of Cineplex as an investment are under the same shadow they have been since the introduction and rapid rise of streaming services. The idea that streaming services will make theatres obsolete in the coming years triggered the massive Cineplex stock decline between 2017 and 2019 (about 57%).

So, if there is perpetual doubt about the potential of the Cineplex business model (and all theatre businesses, for that matter), it may only be good for the current recovery potential, but not as a long-term holding.

Foolish takeaway

After the 2020 market crash, the stock kept slipping down for a while longer than the broader market, but when it recovered, it offered decent returns to its investors — over 250% in nine months.

It might be too optimistic to hope for such growth, but even if the stock has the potential of doubling your capital in a decent time frame triggered by its financial recovery, you may consider buying it (for the recovery, at least).

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Date
2025/06/30
Date Created
2022/08/16
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