Is Cineplex Stock a Buy Now?

Description

Few stocks on the market have suffered during the pandemic as much as **Cineplex** (TSX:CGX). In the time since the pandemic started, Canada's largest entertainment company has seen its stock price drop nearly 70%. With markets fully reopening and some positive results coming in, it begs the question, is Cineplex Stock a buy now?

Results are in for the latest quarter

Cineplex reported results for the third quarter this week. In that quarter, which included the period up to September 30, Cineplex earned $30.9 million, or $0.43 per diluted share.

By way of comparison, in the same period last year, Cineplex posted a loss of $33.6 million, or $0.53 per diluted share.

People returning to entertainment venues outside of the house was one of the major drivers of those improved results. The popular movie house saw a massive improvement in theatre attendance. In the most recent quarter, Cineplex welcomed 11 million patrons into its theatre, reflecting a solid 34% increase over the prior year.

Outside of its core movie-and-popcorn business, Cineplex saw gains across its other areas. Digital place-based media posted revenue of $10.1 million, reflecting a 36.5% improvement. Cineplex's amusement and leisure business also saw a 30% increase in revenue, coming in at $69.6 million for the quarter.

Prospective investors are sitting up and taking note of the improvements. In fact, Cineplex's box office revenue hit 70% of its pre-pandemic 2019 levels.

But is that enough to make Cineplex stock a buy now, or should prospective investors hold off and look elsewhere?

Understanding Cineplex, and its long-term struggle

Cineplex is best known for its iconic movie-and-popcorn business. In short, Cineplex charges admission to patrons to see a show and then sells concessions to them. The exclusive nature of that simple business model has remained mostly unchanged for a century.

That big-screen exclusivity is finally waning. The availability of streaming providers and increasingly exclusive content they provide is impacting Cineplex's bottom line. While streaming services existed before the pandemic, the number of streamers and the value they provide has only increased since then.

Keep in mind that when theatres closed due to COVID, content was released directly to streaming. This new digital channel bypasses the exclusivity of Cineplex entirely.

Prospective investors may find this concerning because admission and concession sales represent the bulk of Cineplex's revenue stream. Cineplex has attempted to diversify in recent years, but little progress has been made.

And that's not the only concern.

Cineplex's movie theatre business is very much reliant on the quality of content coming out of Hollywood. As a result, Cineplex realizes a bump in revenue when huge blockbusters come out. When the content isn't up to what customers want, or theatres are closed such as they were during the pandemic, Cineplex faces lower revenues.

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To be clear, the movie-and-popcorn business isn't disappearing, but rather *evolving*. Moviegoers will still demand big-screen exclusive releases, and Cineplex will continue to see improvements over its pandemic-era results.

Unfortunately, there's still a lot of risk surrounding Cineplex. A complete turnaround, including its once-lucrative dividend could still be years out from materializing, if ever.

In other words, unless you have a very long-term horizon and an appetite for substantial risk, in my opinion, there are far better options to consider right now.

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