Cineplex Stock Plunges to New Lows: Is it a Buy Today?

Description

There has been no respite for **Cineplex** (TSX:CGX) investors. Just a month back, the stock started seeing a strong recovery after the financial turnaround in the past quarter. However, investor sentiment upturned again for the theatre chain giant after rising COVID-19 cases in the last few weeks.

What's next for CGX stock?

CGX stock has lost nearly 30% in December alone and 44% in 2022. The worst nightmare for Cineplex and its investors seems to be turning true with this new wave of the pandemic. A few months back, lower consumer spending amid the impending recession was among its key risks. However, another wave of COVID-19 has come out to be a more serious risk for the company.

Cineplex is the biggest theatre chain company and operates 1,637 screens in Canada. It has been one of the wealth destroyers among the TSX stocks since the pandemic. Many TSX stocks have breached above their pre-pandemic highs, but CGX stock is still trading close to its pandemic lows.

The last week of the year saw many countries imposing new restrictions because of the recent rise in infections. The U.S. announced new testing requirements for travelers coming from China on Wednesday last week. However, scientists appear divided on the new virus variant and the gravity of the spread. Some argue that the new variant seems more dangerous and may not be like previous variants. But many are of the opinion that it may not cause similar damage, as it did in the past amid the widespread vaccinations.

Is the recent fall in CGX stock an opportunity or a warning?

A new, damaging wave could be disastrous for the broader economy and Cineplex. New potential curbs might damage Cineplex's ongoing recovery and could send it several quarters back. However, this is still too soon to tell.

The recent decline in CGX stock indicates more panic than prudent. In March 2020, the stock fell below $5 when new restrictions emerged amid the beginning of the pandemic. It took several quarters of cash burn and months after reopening to heal the damage and return to profitability.

Cineplex reported a net income of $31 million for the quarter that ended on September 30, 2022. For the same quarter, its revenues came in at $340 million, an increase of 36% year over year. It has seen encouraging recovery in the top line in the last five quarters as restrictions waned. The trend may continue for some more time if the new variant does not ruin the party, as more blockbusters come to theatres.

The Foolish takeaway

Consistent financial growth could send CGX stock much higher in the short term. Apart from that, how the settlement with **Cineworld** plays out will also drive CGX stock. It is expected to receive $1.24 billion from now-bankrupt Cineworld after the latter walked out of the proposed takeover in 2020. If the Canadian theatre company receives the said amount, it could substantially improve its balance sheet. After looking at CGX's current valuation, this seems not yet baked into the stock.

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