



Cineplex: Can Avatar Breathe New Life Into This Stock?

Description

Cineplex ([TSX:CGX](#)) stock has done pretty well since its 2020 lows. In October of that year, the stock hit an all-time low of \$4.63; today, it trades for \$7.84 — a 65% gain. True, the stock is way down from its all-time high (around \$44), but the bet has paid off well for those who had the nerve to buy in 2020.

Today, Cineplex stock has some factors going for it that could produce strong results. The company's revenue is likely to be bolstered by the performance of [Avatar: The Way of Water](#), which has grossed \$1.7 billion at the box office so far. It looks like Cineplex has a good quarterly report coming up, but will that be enough to make the company profitable again?

Avatar: A real catalyst

There is little doubt that *Avatar: The Way of Water* will cause Cineplex's revenue to spike, leading to higher sales figures in the next earnings release. So far, the movie has

- Grossed \$1.7 billion;
- Become the sixth-fastest movie to cross the \$1 billion mark; and
- Become the seventh highest-grossing movie of all time.

Incredibly, *Avatar's* box office receipts just keep rolling in. On Sunday, I searched the movie in my local Cinema, and found that it was playing 10 times in a single day! This is really remarkable, because Sunday isn't usually a very busy day at the box office. As it happens, my nearest cinema is a Cineplex, so this data point is directly relevant to CGX's upcoming quarterly release.

Long-term trends less favourable

It definitely looks like Cineplex could potentially release good earnings in its upcoming quarterly report. However, some long-term trends look less positive. Over the last three years, Cineplex has

- Seen its revenue decline by 9.6% per year;

- Seen its free cash flow decline 36% per year (free cash flow is an all-cash-based earnings metric); and
- Not delivered a single profitable year.

I think it's possible that Cineplex could deliver a slightly profitable year in 2022 if *Avatar* really shakes things up. Its loss over the last 12 months was only US\$32 million, which is much improved from the previous several hundred-million-dollar losses. However, there will not be a movie the likes of *Avatar: The Way of Water* every single year. So, it remains to be seen whether Cineplex will manage to turn things around in a lasting way.

Foolish takeaway

Having considered all of the relevant factors, I don't think I'll be buying Cineplex stock. The company has improved its earnings picture a lot since 2020, but it's still losing money, and it has more liabilities than assets. That's not to say that Cineplex can't turn it around.

Its financial picture is better than that of its meme stock cousin **AMC Entertainment**, and it does have a massive blockbuster title showing at its theatres right now. Depending on how much money CGX makes off *Avatar: The Way of Water*, it could use the proceeds to pay off debt and turn its long-term story around.

For now, though, this stock remains a very risky bet. As far as [Canadian domestic stocks](#) go, there are better opportunities out there.

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