Cineplex (TSX:CGX) Stock Is Still Not a Buy

Description

When it comes to Canadian recovery stocks, there are few that are more popular than **Cineplex** (TSX:CGX). The company is the nationwide leader in film entertainment and is a household name across the country. However, its business was hit very hard by the pandemic — so much so that investment theses have been shattered, causing investors to jump out of the stock at the start of the pandemic.

With talks of a vaccine just around the corner and further COVID lockdowns upon us, what should investors do?

An ever-changing investment thesis…

When looking for companies to invest in, many investors check to see whether a company has a formidable moat. This places companies that have sustainable advantages on their competitors as priorities to funnel capital towards. There is no doubt that Cineplex is the nationwide leader when it comes to film entertainment.

Prior to the COVID-19 pandemic, Cineplex was off to a strong start. The company reported a 6% increase in revenue, year over year, for the combined period of January and February. However, by March 16, Cineplex was required to close all locations. This led to frightening rates of cash burn, leaving investors to wonder whether the company would succumb to bankruptcy.

In Q2, Cineplex reported a year over year decline in revenue of 95%. Its net loss for the quarter was $98.93 million. As COVID restrictions were lessened across the country, the company saw a slight recovery in its financial metrics.

In Q3, attendance was only down 91% year over year, which resulted in a slightly more appealing revenue decline of 85.4% compared to the previous year. Unfortunately, cash burn skyrocketed with the company reporting a net loss of $121.21 million for the quarter.

With vaccine news starting to surface in mid-November, Cineplex and other recovery stocks began to see a recovery. From November 6 to November 27, Cineplex stock gained about 111%. Investors also began considering Cineplex as an excellent investment for the new year.

Since then, several regions around the world have reinstated COVID lockdowns. In Canada, provinces such as Alberta, Ontario, and Quebec have made headlines for implementing strict COVID restrictions, to slow the transmission of the virus.

Now, with the stock down nearly 25% from its recent highs, and discouraging economic news, what should investors do?

The stock is still not a buy

Investors would be wise to stay away from the company. Although Cineplex reported more promising attendance numbers in the previous quarter, complete lockdowns by Ontario and Quebec will hurt the company once again. I suspect further cash burn for the next couple quarters at the very least.

Investors may also be interested to know that big money fund managers have been avoiding the stock, for the most part. Of the top 25 shareholders of Cineplex stock, only three funds reported being net buyers over the past quarter. These three funds combined for an average share increase of 1.27% in their respective positions. Of the remaining funds, 13 were net sellers and nine held their positions steady.

Foolish takeaway

With accelerating net losses, increased COVID restrictions across the country, and fund managers staying away from Cineplex stock, investors would be wise to act similarly. Currently, there are more attractive companies to invest in, despite Cineplex's attractive valuation (not discussed in this article) and speculative upside.

It would be a good idea to watch the company's net income over the next quarters and see whether it finds stability in its attendance numbers before jumping into the company.

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