



Is it Time to Buy Cineplex (TSX:CGX) Due to the Coronavirus?

Description

Frankly, I'm shocked that it took a report from Hindenburg Research at the beginning of this month for investors to become concerned around the acquisition of **Cineplex** ([TSX:CGX](#)) by Europe-based **Cineworld** going through as scheduled.

Impact of the coronavirus

Anyone with access to the stock chart of Cineworld will see how badly this company has performed of late. First, the coronavirus has made a bad situation worse. Various governments are encouraging the general public to engage in "social distancing." This pretty much means staying home. Some regional governments have banned the gathering of large groups of people in sports stadiums, concerts, etc. Certain areas, particularly those that have been hit hard by the coronavirus, have banned gatherings of 250 or more. This includes Washington State. This move could pave the way for large theatres to be shut down completely. That is, if folks have not already chosen to stay home independently.

Cineplex's share price

As with most high-profile acquisition deals, Cineworld would be forced to pay a substantial break fee to get out of this acquisition. However, as we've seen with recent developments in financial markets, Cineworld would have a serious problem explaining to its existing shareholder base why it overpaid by an outrageous margin for Cineplex. Cineplex has continued to struggle. The company is worth a fraction of the acquisition price Cineworld agreed to pay, in my opinion.

Shares of Cineplex have dropped below \$30 per share, at the time of writing. This reflects a discount of more than 10% to the acquisition price of \$33.80. This is due, in part, to a short position announced by Hindenburg, which probed investors to consider the statistical odds of the deal falling through. Therefore, as Cineplex's share price declines, investor sentiment can easily be tracked by the market.

Bottom line

I just don't see any scenario in which this deal will go through in this current environment. I would encourage investors who are intent on swapping out shares of Cineplex for those with Cineworld to protect their position with put options at this point in time. National theatre chains are perhaps the best example of companies to avoid at all costs.

Therefore, I wouldn't touch Cineworld, Cineplex, or any U.S. theatre chains at all, now or at any point in the future. I think this coronavirus outbreak is simply symptomatic of larger long-term headwinds. These will inevitably turn the mass theatre business into a zero over time.

Stay Foolish, my friends.

CATEGORY

1. Investing

POST TAG

1. coronavirus
2. movie theatre
3. recession

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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chrismacdonaId

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