Market Crash Alert: America’s Biggest Movie Chain Facing Bankruptcy — Is Cineplex (TSX:CGX) Stock Next?

Description

In a report last week, Wall Street analysts said that **AMC**, America’s biggest cinema chain, looks increasingly likely to file for bankruptcy due to dwindling cash reserves.

With theatres across North America closed indefinitely due to COVID-19, is Canadian movie chain **Cineplex** (TSX:CGX) the next casualty?

Bankruptcy looms for America’s largest movie theatre chain

Eric Handler, an analyst at MKM Partners, downgraded AMC stock from a Neutral rating to Sell late last week. Handler noted that the lack of liquidity for AMC and the fact that its theatres will be shuttered until at least August, means that the company may soon be faced with a bankruptcy filing.

Despite efforts to cut costs, such as furloughing 600 corporate employees, including the CEO, and not paying April rent to landlords, AMC faces an insurmountable challenge. At the very least, Handler says a massive reorganization of the company is inevitable.

Cineplex/Cineworld deal in jeopardy

Late last year, U.K.-based movie theatre operator **Cineworld** agreed to acquire Cineplex at $34 per share. Cineplex negotiated a window where it had the option to solicit higher bids, but no other bids were forthcoming. The deal seemed destined to go through, despite a London-based fund with a large stake in Cineplex urging the Canadian government to block the Cineworld deal.

And then the pandemic struck. Movie theatres around the world shut their doors.

Cineworld has closed all 787 cinemas across 10 countries due to the coronavirus pandemic. The company reported it that it is in talks with its landlords, the film studios, and major suppliers to discuss its ongoing liquidity requirement with its revolving credit facility banks. Further, Cineworld said it was suspending payment of the 2019 fourth-quarter dividend.

Regarding the deal to buy Cineplex, Cineworld reported that it will monitor the proposed buyout of Cineplex as the company accesses emergency support programs to protect jobs and business. Even before the pandemic, there were concerns about the debt required to seal the deal. The acquisition had already led Cineworld to take on additional financing of about $2.2 billion.

As of this writing, shares of Cineplex are trading at $13.54 — a far cry from the $34 per share offer from Cineworld.

Latest earnings release

In 2019, people went to the movies more than 66 million times at Cineplex's 165 locations across Canada. Although theatre attendance was down 4.2% year over year, Cineplex saw total revenues rise 3.3% to $1.66 billion in its fourth-quarter and full-year results for 2019. The company's adjusted EBITDA grew 54.7% to $405 million.

The lucrative box office and concession revenues per patron increased 1.6% and 5.8%, respectively, compared to the previous year. Cineplex told investors it made $168 million in free cash flow last year.

The bottom line

Of course, Cineplex's encouraging results were announced prior to the outbreak of COVID-19. With box offices shuttered indefinitely, the guidance looking forward is grim. Films that were expected to be top box office draws this spring have been delayed until the fall.

No one can predict, even when theatres reopen, if the general public will feel comfortable going to the movies due to lasting fears about a repeat of the pandemic. It's possible that the movie industry landscape as we know it has changed forever.

With the uncertainty surrounding this industry, I would hesitate to buy Cineplex stock, even after a nearly 60% drop year to date.

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