



## Will Cineplex (TSX:CGX) Survive the Shutdown?

### Description

In late March, I'd discussed **Cineplex** ([TSX:CGX](#)) stock and whether it was [worth buying on the dip](#). At the time, I saw little reason for investors to take a gamble, with more appealing equities available in the entertainment space. Streaming services have seen soaring demand due to lockdowns across the developed world, which could deal more long-term damage to the theatre industry.

Today, I want to look at Cineplex, as it has been roughly a month since the shutdown of its businesses across Canada. Meanwhile, we can also look at a theatre giant south of the border, which is facing an identical challenge. What conclusions can we draw from its struggles in comparison to Cineplex? Let's dive in.

### Cineplex: A cloud of uncertainty

Shares of Cineplex have plunged 39% month over month as of close on April 14. The stock is now down over 60% in the year-to-date period. Investors are staring at a bleak picture in this industry. To make matters worse, there is no concrete timeline for the conclusion of the nationwide lockdowns. This adds an extra layer of uncertainty that makes it very difficult to trust Cineplex as an investment in the near or long term.

In early April, Cineplex announced that it would keep its 165 movie theatres across the country closed indefinitely. This week, the province of Ontario announced that it would extend its state of emergency for another four weeks. At this stage, a return to business for movie theaters in May appears to be a long shot.

### AMC in crisis

**AMC Entertainment** is the largest movie theatre chain in the world. It also owns the largest share of the United States theatre market. Shares of AMC have plunged 30% week over week at the time of this writing. The stock is down nearly 70% in 2020 so far.

Recent reports indicate that AMC may be on the verge of bankruptcy. The company was in a precarious cash position before the COVID-19 pandemic. With its business completely shut down, its dwindling liquidity stands as a serious threat to its existence. The company has instituted mass furloughs and pay cuts to stave off these issues. CEO Adam Aron predicted in February that the impact of the global COVID-19 outbreak would be “minimal” on its business. Suffice it to say, this prediction did not age well.

*Reuters* has reported that movie theatres are aiming for a mid-July opening to take advantage of the late-summer blockbuster season. However, there is no telling what financial state AMC will be over the course of a months-long lockdown.

## Will Cineplex suffer the same fate?

**Cineworld plc**, which had planned to acquire Cineplex, announced the suspension of its dividend in April. Its merger with Cineplex is in serious question. Meanwhile, some Cineworld bondholders are also looking to pour cold water on the deal.

Cineplex may not be on the thin ice that AMC Entertainment is right now, but that does not mean its stock is worth picking up. A months-long lockdown is increasingly looking like a reality, which will put an already [struggling industry](#) to the test.

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### TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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