



## The Key Thing Investors Should Look For

### Description

Investors want visibility. Investors value certainty, particularly with respect to how earnings are expected to shape up over time. Analysts often gauge how cheap or pricey a stock is by discounting future cash flows and calculating earnings multiples. To do this, analysts need some visibility, in order to project future performance.

The theatre/cinema sector is a great example of a group of businesses that have no idea what the future holds. Canadian cinema chain **Cineplex Inc.** ([TSX:CGX](#)) has seen its [share price plummet](#) due, in part, to this uncertainty. I expect to see continued market volatility for Cineplex and all players in the subsector for some time, until the market determines when we've hit our "new normal."

### The new normal

What the new normal for cinemas will be in three months, six months, or a year from now depends on a number of variables. Health experts continue to push for two-metre physical distancing to control the spread of COVID-19. As a vaccine is many months or years away, these measures will need to be integrated into business models across the board.

This has led to questions about how high-density businesses, like movie theatres or airlines, will adjust. These volume-based, mass-market businesses have grown accustomed to cramming an ever-increasing number of people into smaller spaces. This is how they reduce costs and increase profitability over time.

### The capacity cap dilemma

Whether theatres will be able to make money with capacity caps in place is the real question here. Expected losses across the sector are growing each day this pandemic disrupts the previous "business as usual" operations of companies like Cineplex.

I think, at this point, it's probably fair to rule out any further consolidation in the sector. The Cineworld

deal to acquire Cineplex is effectively dead. I don't see a realistic scenario in which any bank would lend a cinema chain any amount of serious cash to do an acquisition in the space for quite some time.

Cineplex stock is cheap, by historical standards. However, looking forward I don't see how anyone can make the case that buying the stock is a "good deal." This is particularly true when you consider the amount of uncertainty inherent in such an investment, as I've stated many times in the past.

## The future of movie theatres

I expect to see the entire mass market movie theatre business effectively gone in five years. As with the demise of our neighbourhood movie rental businesses with the advent of streaming services, movie theatres are unlikely to be able to combat the technological advancement made by streaming platforms. These have proven to be effective substitutes for movie theatres. This secular headwind for Cineplex and its peers is only going to get stronger.

I really do believe this pandemic changes nothing about the long term trajectory of the industry. Coronavirus will simply accelerate the transition away from movie theatres toward home theatres, which was already underway. Large American movie chain **AMC Entertainment Holdings** has announced that the company has begun exploring bankruptcy protection.

## Bottom line

I am honestly surprised Cineplex stock hasn't fallen further, faster. I'm not 100% positive Cineplex can make it out of this recession. As a result, I hope that investors who hold this stock or who are considering purchasing at these lower levels, will objectively assess the company's long-term future before moving forward.

Stay Foolish, my friends.

### CATEGORY

1. Investing

### POST TAG

1. canada
2. coronavirus
3. market crash
4. movie theaters

### TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

### PARTNER-FEEDS

1. Business Insider
2. Msn

3. Newscred
4. Sharewise
5. Yahoo CA

### Category

1. Investing

### Tags

1. canada
2. coronavirus
3. market crash
4. movie theaters

### Date

2025/08/24

### Date Created

2020/05/22

### Author

chrismacdonald

default watermark

default watermark