



Warning: Avoid This Former Canadian Dividend Darling as it Tumbles Into the Abyss

Description

Cineplex ([TSX:CGX](#)) had suffered a massive fall from grace — [a fall that I called before the fact back in the Summer of 2017](#) when all was well with the stock. Fast forward to today, and a worst-case scenario has essentially unfolded for the ailing Cineplex. The rise of streaming services knocked Cineplex down, and this insidious coronavirus has knocked it out.

If this pandemic drags on through 2021, there's no telling when it'll be safe to go to the movies again. Some of the bears on the Street, such as fellow Fool Chris MacDonald are of the belief that it's going to [be wraps for the movie theatre industry in five years](#).

Is this the end of movie theatres?

"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." said MacDonald.

"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."

While I can't argue against MacDonald's dire prediction for the demise of the industry within five years given the poor solvency positions of many theatre firms such as Cineplex, I think that video streamers can co-exist with movie theatres in a post-pandemic environment.

The experience of going out to see a movie is far different than watching something on your couch during a coronavirus quarantine. As such, I don't view the two experiences as complete substitutes.

We discovered first-hand during coronavirus lockdowns that humans are social creatures, and movie

theatres were among one of the most missed hangout spots to be among friends. In a post-pandemic environment, I think the movie theatre business will be alive and well, if not better than before the pandemic. The only question that remains is whether the movie theatres like Cineplex will survive the coronavirus onslaught.

The balance sheet isn't looking too healthy these days

Given the considerable amount of debt on Cineplex's balance sheet and its weak solvency and liquidity positions, I'm wary of the company's ability to survive this coronavirus typhoon, especially if the pandemic lasts past 2021.

The Cineworld deal looks like it's going to fall through, and with growth expenditures axed through 2021, the company looks to be in all-out survival mode. Given the uncertainties relating to the coronavirus pandemic and theatre closures, I view Cineplex stock as nothing more than an all-or-nothing bet on the timely arrival of a vaccine.

Foolish takeaway

Like the airlines, Cineplex is at the mercy of exogenous events right now. Unless you're willing to speculate with money you're willing to lose, I'd urge investors to look elsewhere because there's a chance that Cineplex and many of its peers may never live long enough to experience the recovery of the movie theatre industry.

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Date

2025/06/30

Date Created

2020/06/04

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