



Why I'd Avoid Cineplex Theatres and its Stock for Now

Description

Cineplex ([TSX:CGX](#)) [released](#) its Q1 2020 results on Monday, June 29. The company posted an adjusted net loss of \$0.08 per share for the quarter, better than analysts' estimate of a \$0.43 loss per share. In contrast, its revenue of \$283 million fell short of analysts' expectations of \$316 million and fell by 23% year over year. On March 16, Cineplex had to temporarily close all its theatres due to the [COVID-19 outbreak](#)-related restrictions, which affected its first-quarter results.

The pandemic forced the company to lay off all its hourly staff and some of its full-time employees. Also, it reduced the salaries of other full-time employees starting from March 21. To survive during these tough times, Cineplex has taken steps, such as reducing capital expenditure, seeking rent relief from landlords, and suspension of dividends. Now, let's explore some key points from Cineplex's plans to reopen its theatres going forward.

Gradual reopening and enticing cinema-goers

Cineplex has already reopened its six theatres in Alberta on June 26. Starting from Friday this week, the company plans to reopen more theatres in other provinces, including in British Columbia, Saskatchewan, Quebec, New Brunswick, Nova Scotia, and Newfoundland.

It plans to use some pricing and marketing strategies to entice its guest to return to theatres. However, I don't see why this plan would help Cineplex much, as people are at home right now because of safety concerns and not because they are waiting for a great offer or some discounts on their movie tickets.

Cineplex's reopening plan for its other theatres across Canada remains uncertain, as it can only be done based on government directives and guidance from Canadian public health authorities.

Safety protocols

Cineplex claims to keep end-to-end health and safety protocols in place for cinema-goers and its staff. In its Q1 earnings report, the company highlighted that it would be launching a reserved seating plan

for its customers to ensure physical distancing.

Communicating with its customers

The company said that it maintained a connection with its customers during the shutdown period using social media platforms, its online store, and home food-delivery services with **Uber** Eats and Skip the Dishes. Cineplex plans to communicate the news of its theatre and location-based entertainment venues reopening using these communication channels.

Why I'd avoid Cineplex theatres

People who care about their safety (and the safety of the people living with them) might still choose to avoid movie theatres for the next few months, especially if the same movie is available on some online video-streaming platform. I agree that watching movies online is not even close to the fun of watching movies in theatres, but the movie theatre experience won't really be fun if I have to worry about maintaining physical distancing to avoid catching the COVID-19 virus.

Why I'd avoid its stock

It is important to remember that Cineplex's first-quarter results don't reflect the full negative impact of the COVID-19 on its business, as shutdowns began in mid-March. All its theatres remained completely closed during the second quarter — except six theatres that it reopened recently on June 26.

Even if I ignore the fact that Cineplex has suspended its dividends and **Cineworld** has called off its Cineplex acquisition plan, I still have many reasons not to buy Cineplex stock right now. For example, despite the gradual reopening of its movie theatres in the coming months, delayed new movie releases, low guest capacity, and more expenses to implement guest safety measures could continue to take a big toll on Cineplex's business in the next few quarters.

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