Cineplex (TSX:CGX) Craters After Disappointing Q1

Description

Arguably, one of the hardest-hit stocks by the pandemic, **Cineplex** (TSX:CGX) is down by approximately 71% year to date. Given the prolonged economic shutdown, Cineplex's viability is now in question.

Investors are anxious to see how the company is faring, and whether there's a risk of insolvency. This is why Tuesday's quarterly results were so important.

As with most companies, expectations were low heading into earnings. How did Cineplex perform? Let's take a look.

The earnings report

After the bell on Tuesday, the company reported first-quarter results ended March 31, 2020:

Metric	Reported	Expected
Earnings per share	-$2.43	-$0.43
Revenue	$282.2 million	$316.44

That wasn't pretty. Cineplex posted a big net loss and missed on both the top and bottom lines. Notably, the majority of analysts pulled estimates and only two were left standing. Given this, the big miss can be a little misleading and the earnings miss contains a pretty significant impairment charge.

There is however, no way to sugarcoat the last quarter. Year over year (YOY), revenue dropped by 22.4% and theatre attendance cratered. Attendance came in at 10.7 million, down from 15 million in the same quarter last year.

The lone bright spot came from the company's digital commerce segment. The Cineplex Store saw revenue increase by 37% and quarterly active users jumped by 43%. Overall however, it was a quarter to forget.

The industry is one of the hardest hit, and most cinemas won't begin to see a meaningful increase in attendance until the last phases of reopening. Large media companies are delaying tent pole films and even if they were to reopen, cinemas have little in terms of new content to offer.

The year ahead

The deal with Cineworld is all but dead. The U.K. theatre company terminated its agreement to buy the company, citing a breach of terms and conditions. Cineplex has since disputed these claims and intends to sue for damages.

At issue is the company's debt covenants. As part of the deal, Cineplex must maintain the prescribed financial covenants and not take on any additional debt. As of the end of the quarter, it was in compliance but said a potential breach is likely over the next couple of quarters.

That said, now that the deal is over, Cineplex will now be on its own. Unfortunately, this will be no easy task. The company closed all of its theatres and location-based entertainment venues and is effectively on life support.

It is in the process of seeking additional financing and entered into an amendment agreement with current lenders. As part of the amendment, the company will have access to an additional $250 in financing, which will help pay down current obligations.

Is Cineplex a buy today?

The jury is still out on this company. Bottom line, this is a play on a rebound in the economy. If all goes well, Cineplex can rebound in a big way with big tent pole films on deck.

However, as we've seen in recent weeks, the economic re-opening has been anything but smooth. Movie studios are consistently pushing back films, and most provinces are not fully reopen. Similarly, Cineplex will not be operating at full capacity for a while, as they will need to implement social distancing measures.

Finally, any considerable setback has the potential to send the Cineplex into bankruptcy. This is a real possibility, and one that shareholders must take into account. According to the company, *"…material uncertainties lend significant doubt about the Company's ability to continue as a going concern."*

At this point, the company is only appropriate for those high-risk investors.

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