WARNING: Is Cineplex (TSX:CGX) Headed for Bankruptcy?

Description

COVID-19 and the subsequent lockdowns have ravaged the global economy. Canadian provinces are gradually easing up on restrictions. However, the "new normal" may still drive a knife in the heart of businesses across the country. **Cineplex** (TSX:CGX) could be one such business. Its shares have dropped 74% in 2020 as of close on July 17.

How Cineplex has been pushed to the brink

Cineplex was forced to halt its operations in the middle of March in response to the COVID-19 pandemic. Predictably, this had a devastating impact on its first-quarter 2020 results. Total revenues fell 22.4% year over year to $282.8 million, and theatre attendance dropped 28.5% to 10.7 million. The scary thing is, this only includes roughly two weeks of non-activity ending March 31, 2020. Second-quarter earnings will bring even more dire news.

So, is Cineplex out of the woods now that theatres are reopening? Absolutely not. Cinemas will be forced to operate at a significantly reduced capacity. A Cineplex spokesperson said that Ontario's provisions, which limits a theatre to 50 guests, will prevent it from relaunching. At this limited capacity, theatres will not be able to operate in a way that is economically feasible. Reportedly, the government is attempting to hash out a compromise so that theatres can open going forward.

The grim picture does not end there. Big studio releases are also being put on hold until capacity increases. **Disney** has delayed the release of *Mulan*. Meanwhile, the new James Bond flick *No Time to Die* may be pushed back to the spring or summer of 2021. Some analysts are predicting that theatres will not be able to return to normal operations until the middle of 2021.

Theatres will need a lifeline until 2021

Cineplex and its peers will require significant financial support in order to make it out of this catastrophe. **AMC Theatres**, the largest movie theatre chain in the world, recently unveiled a proposed debt-restructuring agreement with its bondholders that includes $200 million in new cash. This is designed to ensure that AMC can survive until at least 2021.

On June 29, Cineplex entered an amendment agreement with its own lenders. Fortunately, this provides the company with immediate financial covenant suspension. It can be extended to the second and third quarter of 2020 upon specific conditions. This will include $250 million in new financing.

Theatres will be stretched thin, as they wait on pins and needles for this crisis to abate. Cases have dropped significantly in Canada, but the measures in place will put a strain on the theatre, restaurant, and other industries for months and perhaps years to come.

Should you give up on Cineplex?

Back in the spring, I'd suggested that investors should forget about Cineplex and target streaming stocks instead. Stocks like **Netflix** have gone on a tear with the COVID-19 pandemic accelerating the shift to home entertainment platforms. Even if the COVID-19 crisis were to disappear overnight, consumer habits may bury the theatre industry. Cineplex is fighting for its life, and it no longer offers its attractive dividend. There is little reason to take a gamble on the stock in this time of uncertainty.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/08/25
Date Created
2020/07/20
Author
aocallaghan