Warning: This 1 TSX Stock Will Kill Your Portfolio: Sell Today!

Description

Things are certainly not looking up for Canadian theatre company **Cineplex Inc.** (TSX:CGX). COVID-19-related shutdowns are significantly impairing this broad sector. Cineplex's stock is now trading as a quasi-option on the survivability of the previously excellent cash flow generating machine.

In this article, I'm going to highlight a few reasons investors ought to avoid Cineplex stock altogether, despite its appeal as a deep value play.

Acquisition unlikely to go through

Anything is possible. But the planned Cineworld takeover of Cineplex for approximately $34 per share is now looking extremely unlikely. This stock has lost more than 3/4 of its value since the beginning of the year at the time of writing.

This current stock price implies little in the way of hope for the acquisition to go through, despite Cineplex's best efforts. Cineplex has formally launched a lawsuit against Cineworld, saying that it believes Cineworld has breached contractual obligations to buy the company at its stated price.

Cineworld has responded that material changes have forced the U.K.-based cinema chain from completing the deal. This raises issues around whether the COVID-19 pandemic can be classified as a force majeur in this case.

While the lawyers battle this out (which won't be cheap), analysts are also chiming in on Cineplex's options for moving forward. Avoiding filing for bankruptcy protection is a priority for Cineplex. **AMC Entertainment** in the U.S. recently took the first steps to explore bankruptcy options — a move that took the whole sector broadly down.

Cineplex recently filed for a $275 million convertible debenture offering in a bid to shore up its balance sheet and provide extra liquidity in this time of uncertainty. A **National Bank** analyst has also indicated Cineplex may move to sell its headquarters building or other assets.

The company is trying to keep the lights on while COVID-related restrictions remain in place. These moves are positive from liquidity standpoint. On the other hand, these moves represent balance sheet deterioration. This is a negative for long term investors in this stock.

Long-term outlook bearish

I do think the long-term outlook for Cineplex has become far more bearish given these recent developments. Attracting high-risk populations back to movie theatres, even with social distancing measures in place, will be a difficult sell.

The secular shift away from movie theatres toward high-quality in-home entertainment options such as streaming platforms is likely to continue to eat away at already plummeting attendance numbers.

There really aren't any bullish long-term catalysts I can think of for Cineplex right now. Surviving is one task on its own, and I don't think survival is guaranteed for any player in this sector right now.

Growth is a whole other ball game, however. I think this sector has fundamentally shifted toward becoming non-investment grade, and as such, I believe the Foolish thing to do is to avoid this stock at all costs.

For those who own the stock, selling now and taking tax losses could be the most profitable decision long term.

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