Did Disney Just Deliver a Death Blow to This Iconic Canadian Company?

## Description

The **Walt Disney Company** (NYSE:DIS) just clocked in quarterly earnings results that saw a staggering US$5 billion charge thanks to the horrendous COVID-19 pandemic. While the results were rough, they were better than what the Street was expecting, as Disney managed to turn a quarterly profit of US$0.08 per share. The major "bright spot" for Disney was its video streaming platform Disney+, which saw 60.5 million paying subscribers.



The company then dropped a bombshell announcement: the much-anticipated live-action epic *Mulan* will be headed for a premiere on Disney+ in select markets on September 4 for those willing to pay US$30 on top of the price paid for the Disney+ service.

There's no question that Disney has been under an unfathomable amount of pressure amid the pandemic. Such unprecedented times call for unprecedented action. And while the straight-to-stream pay-per-view-like move is a risky one-off move for Disney, especially given the steep price tag (US$30 is more expensive than two tickets to watch a movie in theatres), the release of big-budget film *Mulan* straight to Disney+ could be a significant blow for ailing movie theatre firm **Cineplex** (TSX:CGX).

The big-budget blockbusters were a lifeline for Cineplex prior to the pandemic. Many must-see films have already been delayed several times. The bull thesis on Cineplex was that the delay in widely-anticipated films like *Tenet*, *Black Widow*, *Mulan*, and *No Time to Die* would eventually result in a significant revenue bump down the road after COVID-19 was contained enough to allow for movie theatres to be reopened safely. With Disney's latest eyebrow-raising VOD model, the bull thesis is now at risk.

## A risky move for Disney, another devastating blow to movie theatres

With Disney opting to test out the waters with the release of its big-budget film on its streaming platform, the bull thesis on movie theatres could have the potential to be scrapped should other streamers opt to follow in Disney's footsteps.

While US$30 is a steep price to pay for on-demand video, a majority of people who were dying to see the film will open up their wallets, especially if *Mulan* ends up getting rave reviews.

The difficult and risky decision to premiere *Mulan* on Disney+ could ultimately be a huge win for Disney (Disney stock soared 4.3% in the after-hours on Tuesday). While management views the move as a one-off, it could be the beginning of a broader trend in the industry, as film producers look to cut out the movie theatre middleman. Of course, it all depends on how many people will pay to see *Mulan* from the comfort of their homes.

Regardless of how successful *Mulan*'s debut on Disney+ will be, Cineplex will be a major loser, as it suffers another blow that could last well after this pandemic is over.

With film productions on halt amid the pandemic, Cineplex will also experience the mother of all movie droughts, potentially years to come. If *Mulan* ends up being a hit on Disney+ and other films in Disney's pipeline head for streaming platforms under a pay-per-view model, Cineplex stock could be in for another massive plunge into the abyss.



## Foolish takeaway

I see zero reasons to own Cineplex stock at this juncture and believe that shares could fall under further pressure despite already being down over 85% from the 2017 highs, a time I warned investors to sell the stock immediately before it crashed.

Disney's recent bombshell announcement isn't helping the cause for ailing movie theatre companies. Furthermore, Cineplex's terrible liquidity position puts it at high risk of insolvency.

So, did Disney deliver a death blow to Cineplex?

Only time will tell. The latest *Mulan* announcement is certainly not good news for the Cineplex bulls, though.

**CATEGORY**

1. Coronavirus
2. Stocks for Beginners

**TICKERS GLOBAL**

1. NYSE:DIS (The Walt Disney Company)
2. TSX:CGX (Cineplex Inc.)

**PARTNER-FEEDS**

1. Business Insider

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

**Category**

1. Coronavirus
2. Stocks for Beginners

**Date**
2025/08/26
**Date Created**
2020/08/05
**Author**
joefrenette