Is It Curtains for Cineplex?

Description

Some businesses are feeling the effects of COVID-19 more harshly than others. Many have already gone under and a record number of companies in Canada are seeking protection from creditors. For companies that depend on foot traffic and need it to keep operating, the outlook is gloomy as the threat of a second wave of COVID-19 cases in the fall could result in lockdowns again and potentially set the economy back several steps.

One company that's in a perilous situation because of that risk is **Cineplex** (TSX:CGX). Even if the business is able to stay operating at a fraction of its capacity, it may not be enough to stave off the inevitable — closing up for good. The Ontario-based business released its most recent quarterly results on Friday. Let's have a look at how its numbers looked and if it's in good shape moving forward.

Revenue craters 95% in the second quarter

For the three-month period ending June 30, Cineplex's sales were just $22 million — a little more than 5% of the $438.9 million that the company generated in the same period last year. And while the company's been slashing costs where it can, expenses of $154.7 million were still far greater than Cineplex's top line, despite declining by more than 62%. As a result, the company incurred a loss of $98.9 million compared to a profit of $19.4 million in the prior-year period.

Its year-to-date losses now stand at $277.3 million. But with cities reopened and Cineplex at least able to operate, the third quarter likely won't be as bad as Q2 was.

The company is still doing okay, for now

By no means is it a bright road ahead for Cineplex, but the company be in okay shape for the time being. One of the positives investors can take away from the company's recent results is that as bad as last quarter was, Cineplex still generated cash from its operating activities — $18.1 million. And year to date that number's $41.3 million.

The name of the game amid the pandemic is staying alive, and to do that, a company needs to find a way to generate cash flow. Large losses look scary but they also include non-cash items like depreciation which isn't much more than an accounting entry. Those aren't new expenses that Cineplex is paying for, it's simply an allocation of previous capital purchases.

It's definitely encouraging to see that Cineplex is still able to avoid burning through its cash even during some dark times. However, that doesn't mean that the company is out of the woods as it still has a large balance of current liabilities totaling $1.2 billion — far more than the $110 million it has in current assets.

Bottom line

Cineplex is keeping its head above water but it's got big bills to pay. While the company maintains it has sufficient liquidity "for the foreseeable future," that shouldn't offer investors much comfort. The longer the pandemic keeps people indoors and out of movie theatres, the direr the situation becomes for Cineplex. While the company may bounce back a bit next quarter, the long-term outlook still doesn't look good, and this stock is far too risky to invest in today.

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