Cineplex (TSX:CGX) Stock: Buy Now or Lights Out?

Description

Cineplex (TSX:CGX) traded above $50 per share in 2017. Today, the stock trades below $9 and investors want to know if a Hollywood ending is on the way.

Changing times

Does anybody remember $2.50 Tuesdays?

Cineplex enjoyed the position of market darling among dividend investors for years. Analysts heaped tons of praise for the stock, as Cineplex held a dominant position in the Canadian cinema market with the largest number of movie theatres across the country.

Canadians loved going to see the newest blockbuster on big screens. They also gulped down oversized soda pops, gobbled up buckets or popcorn, and munched away on jumbo chocolate bars while watching their favourite film. Cineplex made massive margins on the treats and drinks.

Combine this with steadily rising ticket prices and advertising revenue and you had a great business model.

Streaming revolution

The steady advancement of high-speed broadband technology and the popularity of streaming services should have been a warning to investors.

Netflix made it possible for families to access hours of old movies, TV shows, and new releases right in the comfort of their own homes. While the big-screen experience is certainly absent at the house, you can create a pretty cool home-entertainment environment. People started counting their pennies and decided to forgo some of the expensive cinema outings.

Competitors are now launching their own streaming services. **Disney** has already found strong success, putting more pressure on Cineplex and its peers.

How?

Content creators of big-budget movies historically relied the theatre chains to reach audiences. Now, they are starting to release films directly on the streaming services, completely bypassing the big-screen venues. COVID-19 is the main driver of the shift, but there is a risk it could be the start of a larger trend.

If Disney and other movie creators determine they can get as much or more revenue through the streaming model by going directly online with new releases, the movie theatres will be in big trouble.

Investors who see this as the eventual ending of the story should avoid the stock or even unload current positions.

The opportunity

Cineplex had a deal in place to sell itself to U.K.-based **Cineworld**. The arrival of the pandemic prompted Cineworld to cancel the deal in June. Cineplex is trying to get Cineworld to honour the $2.18 billion agreement. Cineplex has a current market capitalization of $560 million.

At the current stock price contrarian investors who are of the opinion the big-screen business model still has a future, might want to start a speculative position.

Why?

Cineplex says all of its sites across Canada are now open, albeit with COVID-19 social distancing restrictions in place. Eventually, vaccines and treatments should enable to theatre to return to previous capacity.

It wouldn’t be a surprise to see Netflix, **Apple**, Disney, or **Amazon** buy Cineplex while it is in trouble. The instant access to 165 prime theatres across the country would provide an opportunity to showcase popular content in the big-screen environment.

People might be interested in paying to see a blockbuster in the theatre, even if they have access to it online. Owning the theatres would provide the digital giants with attractive advertising opportunities, as well as options to generate other revenue streams.

A bidding war could potentially emerge, giving investors a shot at a nice takeover premium.

Otherwise, Cineplex and Cineworld might also find a way to get a deal done. If that happens, investors shouldn’t count on the same price being paid.

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
2025/07/04
Date Created
2020/08/25
Author
aswalker