Cineplex (TSX:CGX) Has a Massive 95% Drop in Revenue

Description

Will lenders relax financial covenants with **Cineplex** (TSX:CGX) reporting a 95% drop in total revenue? In Q2 2020 (quarter ended June 30, 2020), the top tier Canadian brand posted a total revenue of only $22 million versus $438.9 million in Q2 2019. Its net loss for the quarter was a staggering $98.9 million.

Massive downfall

Since March 16, 2020, families, moviegoers, and frequent visitors were nowhere near the circuit of theatres and location-based entertainment (LBE) venues of Cineplex. All of them were closed due to COVID-19. Employees and investors were not spared from the impact of shutdowns and lockdowns.

Management implemented temporary layoffs of all part-time and full-time hourly employees. Other full-time employees chose the same option rather than accept pay cuts. Aside from these drastic measures, Cineplex deferred capital spending and suspended dividend payments.

Material decreases in revenues (film entertainment, media, and amusement segments) and drying cash flows were inevitable. For Q2 2020, Cineplex's monthly cash burn was $18 million. Other ongoing concerns include negotiations with landlords (for rent relief) and major suppliers (for contractual payments).

Dramatic showdown

In June 2020, Cineworld Group, the world's second-largest cinema group, cancelled the deal to take over the Canadian icon. The reason cited by the London-based company was a breach of contract. Cineplex has filed a suit against the retreating buyer and seeking billions in damages. The tentative trial date is September 2021.

The $2.8 billion transaction would have given birth to the biggest operator of movie theatres in North America. Instead of a merger, two movie exhibition giants will engage in a legal battle.

Open for business

Cineplex is ready to welcome guests back and is the first major film exhibitor to reopen its entire theatre chain. As of August 21, 2020, all 164 theatres and 1,687 screens across Canada, including 22 VIP Cinemas locations, are open.

Cineplex CEO Ellis Jacob said that Cineplex is unlikely to hit break-even in Q3 2020, although he's confident next year will be a strong one. Management is implementing a slew of marketing and pricing strategies to draw loyal customers.

Cineplex assures customers that the safety precautions in place across all businesses are in partnership with public health officials and infectious disease experts. Thus far, many theatres, under physical distancing rules, are reaching capacity. Attendance should increase with new movie releases like The *SpongeBob Movie*: *Sponge on the Run, Unhinged,* and *Tenet.*

From great to worst

Cineplex shares delivered a total return of 42.7% in 2019 and one of the year's dividend kings. On March 16, 2020, when the business shut down, the stock sunk 54.28% to $9.33. It recovered in late April as it climbed 78.35% to $16.64. When news of the scrapped deal with Cineworld came out, the price sunk deeper to $7.91.

As of this writing, Cineplex is one of the worst-performing stocks in 2020. At $9.18 per share, the year-to-date loss is 72.75%. The company said Cineworld has no legal basis to back out from the deal. Their agreement explicitly excludes "outbreaks of illness or other acts of God." Cineplex's business suffered for those reasons.

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