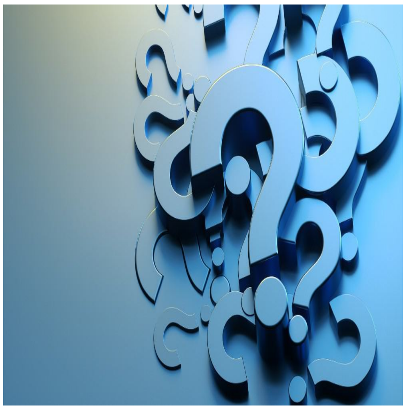

Is Cineplex (TSX:CGX) Stock a Buy at $10?

Description

Cineplex (TSX:CGX) stock is trading close to $10. Is it a buy now?

Cineplex had a rough second quarter

Cineplex's revenue fell 95% in the second quarter and burned about $40 million in cash, as it closed movie theatres because of the coronavirus. The company lost $98.9 million in the quarter and said free cash flow was -$53.8 million on an adjusted basis.

All of the locations have now resumed operations. Canada's largest chain of movie theatres said it's "implementing a number of pricing and marketing strategies to entice its guests to return."

Many theatres have already reached capacity under physical-distancing rules, and attendance numbers are expected to increase, as new blockbusters come out.

Cineplex said in June it was working with lenders on a deal to ease financial commitments after London-based **Cineworld Group Plc**, the world's second-largest film group, canceled its deal to take over the Canadian chain, alleging breach of contract. Cineplex denied the claim and sued Cineworld, claiming billions of dollars in damages. The trial is tentatively scheduled for September 2021.

This case could be stuck in court for years, costing more money for a company that just doesn't have much to burn right now. The merger would have created the largest theatre operator in North America.

Cineplex doesn't expect to see breakeven results in the third quarter but expects 2021 to be a "very good year" at the box office with the release of highly anticipated titles, such as *Minions: The Rise of Gru*.

"While it is impossible to predict how long this crisis will last and how significant the impact will be on our business, Cineplex will continue to take the necessary steps to strengthen the financial position of our company and ensure a healthy future," said Cineplex president and CEO Ellis Jacob.

Cineplex stock is a risky bet

Cineplex stock is one of the worst-performing on the **TSX** this year, dropping about 70%. The decline in share price doesn't mean you should rush to buy some shares. The company is in poor financial shape, and it won't be profitable for a while.

For fiscal 2020, revenue is estimated to decline by 58% to $698 million, while earnings are expected to decline by 672% to -$4.23 per share. The company's revenue and EPS are expected to grow by more than 90% in 2021, but the company will still be in the red.

Even if COVID-19 vanished tomorrow, Cineplex would still struggle, as movie production has been delayed. It's hard to attract people to theatres without attractive movies.

So, not only Cineplex will show outdated or older movies that are struggling to get a ton of customers, but it'll also have to run those theatres at half capacity. For a business that has the liquidity to survive the year, there is potential for a rebound.

The problem with Cineplex is that it doesn't have cash and is not currently in a very good financial position to withstand an ongoing storm, which will inevitably occur to the cinema world.

The longer it takes to develop a vaccine and eliminate COVID-19 globally, the longer the restrictions will be imposed on Cineplex, the harder its revenues will be affected, and there will be an increased risk for the company to go bankrupt. Cineplex stock looks like a too risky bet right now.

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Date
2025/08/26
Date Created
2020/08/31
Author
sbchateauneuf