Is Cineplex (TSX:CGX) Sunk?

Description

It's been a bad year for many companies, but I don't know many that have had it worse than **Cineplex** (TSX:CGX). Even before the crash, many economists were already questioning the future of Cineplex. Streaming services proved to keep people at home instead of heading to the movies. Then a pandemic hit that literally forced them inside.

Today, share prices remain at lows not seen in almost a decade. So, what should investors do with Cineplex? Is this a great deal or an investor's nightmare?

The good

The best part about Cineplex right now is certainly its share price. As I mentioned, these prices haven't been this low in almost 10 years. That means if a rebound were to happen, these prices may not be seen ever again. That could potentially leave investors with an increase of 277% in share price as of writing.

What it comes down to is a return to normalcy. It's already underway. Businesses are opening their doors and allowing patrons to return. It could be just a matter of time before Cineplex offers a safe way for Canadians to come to the movies once again. The Canadian government has also already approved the release of a treatment for COVID-19, and a potential vaccine is closer every day. If approved, that could mean the end of the pandemic, and the start of movie going once again.

Meanwhile, Cineplex was well known for its dividend yield. This has since been cut; however, if there are any signs of life, this company will likely want to reassure investors by bringing back dividends. That could mean you'll receive a huge increase in share price, along with quarterly income.

The bad

The bad is clear. COVID-19 makes it incredibly hard for this company to survive. Some economists believe the pandemic could last until 2024, especially if a vaccine isn't available. Even if it is, new waves could come to Canada as travel resumes. This all means movie patrons will be incredibly wary of attending any Cineplex sites, even after the pandemic.

The company does have about $300 million in liquidity to help it survive, but should this last to 2024 that won't last long. Cineplex announced a 95% drop in its top line as of the latest quarter. That's a decrease of over 1,000% year over year in earnings per share, with sales down about 58%.

Finally, let's just say everything goes back to normal tomorrow. And let's say movie goers are too gung ho to wait any longer, heading right back to the cinema. Cineplex still has a ton of debt it has to pay off from its expansion.

Bottom line

Right now, even with these low share prices, Cineplex could continue to drop for the next few years. It might even declare bankruptcy before the pandemic is over. While I doubt we'll suddenly see Cineplex disappear completely from cities across Canada, it could very well be that Cineplex is forced to close many locations for good. This would continue to drop its share price for the foreseeable future. Right now, it's just simply not worth the risk.

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