



2 Things Cineplex (TSX:CGX) MUST Do to Recover

Description

If there is one business that continues to suffer during this pandemic, it's cinemas. Even with businesses reopening, there just simply aren't the opportunities to allow social distancing quite yet within a cinema. So while the rest of the market has since a V-shaped recovery, for stocks like **Cineplex Inc.** ([TSX:CGX](#)), that just hasn't been the case.

Cineplex shares continue to trade at lows not seen in [almost a decade](#). While this could be considered a bargain, right now it certainly isn't. The pandemic forced moviegoers inside, resulting in a 95% drop in the company's top line as of the latest earnings report. Meanwhile, even with social distancing it's unlikely movie patrons will be convinced that it's safe to attend the theatre once again.

As well, the company has a ton of debt. While it might have \$300 million in liquidity, that just simply isn't enough to cover both the losses and this debt. With the [pandemic](#) potentially staying around to as late as 2024, this could be the end of Cineplex. That is, unless it does these two things.

Sell

Cineplex wanted to find new ways of making revenue for the company — and to be fair, it started to work! The company created the Rec Room, a place for people to both dine and be entertained. The company was in the process of opening up these new locations across the country when the pandemic hit.

It had already bought out many other cinemas across Canada beforehand so that a Cineplex could be found in almost every city. However, that turns out to be exactly the problem during the pandemic. It costs money, mainly rent right now, to keep these locations afloat. So, if Cineplex hopes to survive this pandemic, it's going to have to start selling some.

This should be a relatively easy measure, and one of the first moves the company makes after making its dividend cuts already. Cineplex management will just have to see which locations performed the worst before the pandemic, bringing in the lowest amount of revenue. Then, these locations will have to close. I would be surprised if a list hasn't already been created.

Stream

If it really wants to get into new forms of revenue, the company is going to have to dig deep and try creating a streaming service. Use this time as an opportunity to become your biggest competitor. After all, if you can't beat 'em, join 'em!

While there are plenty of competitors already in this space, Cineplex has already started offering digital downloads. It wouldn't be a big stretch to start purchasing agreements to provide Canadians with a way to see the newest movies from the comfort (and safety) of their own homes.

Bottom line

This isn't ideal, but if these measures aren't taken Cineplex could be done for. The company needs to take these steps if it hopes to survive. It was already a struggle before the pandemic hit. If Cineplex doesn't start making some tough decisions soon, it could be one of the largest Canadian institutions to close up due to the pandemic.

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