
Why Cineplex (TSX:CGX) Stock Fell 32% Last Week

**Description**

**Cineplex** (TSX:CGX) stock fell 32% over the past week and is now trading at $4.75, an all-time low. The theatre chain has obviously had a rough year, but recent developments seem to have created an existential crisis for the company. Here's why Cineplex stock could keep plunging lower and why investors should probably ditch this stock right away.



## Delayed movies

The nation's largest theatre operator obviously depends on ticket sales and food consumption across its venues. Both sources of income have been eviscerated this year as the pandemic forced the government to shut all non-essential businesses and indoor gathering.

However, Cineplex stock surged 82% between March and July this year as the economy reopened. By late July, several Cineplex screens were reopened with social distancing and regular cleaning measures in place — just in time for the release of Christopher Nolan's sci-fi blockbuster *Tenet*. Investors were hopeful for a turnaround.

However, *Tenet* wasn't the blockbuster success everyone expected. The movie made only US$45.1 million ($60 million) and far less in Canada. This lacklustre performance has scared off other studios from releasing blockbusters like *Dune* or *No Time to Die.*

With no major releases expected until next year, Cineplex faces a dramatic shortfall in potential revenue.

## Failed acquisition

In June, British cinema company **Cineworld PLC** dropped its plans to acquire Cineplex for an estimated $2.8 billion. That failed acquisition has left Cineplex without a lifeline at a critical time. As the crisis extends to all movie chains across the world, the chances of another acquisition deal from a major cinema company are bleak.

Meanwhile, the company's $2 billion debt burden amplifies the pressure they face. With revenue expected to drop 70%, the team needs an exit soon. Cineplex stock is now reflecting these bleak prospects.

## Analyst downgrades

Cineplex stock plunged last week when an analyst downgraded the stock. Adam Shine, an analyst from **National Bank Financial**, changed his rating from "Buy" to "Hold" over the weekend. On Sunday, **BMO** analyst Tim Casey downgraded the stock to an underperform. Both analysts now have price targets ranging from $6 to $8.50. That could still imply some upside for Cineplex stock, which is currently trading at $4.75.

Given the uncertainties facing the entertainment sector, cautious investors should probably stay away. However, the bargain price and discount from analyst price targets could make Cineplex stock a suitable turnaround bet for speculators.



## Bottom line

Cineplex stock plunged 32% last week as the entertainment sector was plunged back into crisis. High-profile movies have been delayed until next year, which means no one is expected to visit Cineplex screens for the next twelve months. Meanwhile, the company is struggling with a hefty debt burden and has recently lost a rescue deal with Cineworld.

Cautious investors should probably offload this stock and stay away. But for speculators, this is a ripe opportunity.  Any catalyst that helps the company turn things around – such as another acquisition or a coronavirus vaccine – could help the stock surge. If it meets analyst price targets, the stock could deliver a double-digit percentage gain.

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