



## Why Cineplex (TSX:CGX) Stock Plunged 29% Yesterday

### Description

**Cineplex** ([TSX:CGX](#)) is the largest movie theatre operator in Canada. In early September, I'd [recommended](#) that investors bail on Cineplex and look elsewhere in the entertainment space. It has not been hard to see the writing on the wall for Cineplex and the industry at large in 2020. Shares of Cineplex plunged 29% on Monday, October 5. What was behind this sudden loss of faith?

### The collapse of Cineworld is stoking fears for Cineplex

In the United Kingdom, cinema giant **Cineworld** announced that it would close all its screens in the United States, Britain, and Ireland this week. This occurred after studios pulled major releases, namely the next installment in the *James Bond: 007* franchise. Cineworld wrote to United Kingdom Prime Minister Boris Johnson and Culture Minister Oliver Dowden and warned that the industry was becoming unviable. This is a critical moment for the movie theatre industry.

Naturally, this has ignited fears for Cineplex. To start this year, Cineworld was on deck to complete a \$2.8 billion merger with Canada's top movie theatre operator. Instead, the COVID-19 pandemic led to a sequence of events that saw the deal squashed. While Cineplex has taken the issue to court, survival is paramount for these companies right now.

### Is there any hope for the cinema in the near term?

The postponement of the *James Bond* installment *No Time to Die* left movie theaters in a bind. This industry has been increasingly reliant on the performance of big blockbusters as streaming services have encroached on its territory when it comes to art house and niche releases. All the way back in 2017, I'd discussed how this dependence also left the industry in a [vulnerable state](#).

With no timeline on when the pandemic restrictions will end, there is no way to project a return to life for this industry. Cineplex and its peers will need to rely on a handful of enthusiastic movie theatre fans and the goodwill of their creditors. Shares of Cineplex have plummeted 85% in 2020.

Tens of thousands of jobs are at risk in this industry. Moreover, a collapse of the box office will have a knock-on effect in the entire entertainment space. Hollywood productions have grown increasingly ambitious and have employed a larger and larger crew to deliver ambitious blockbusters like those we have seen in the *Marvel Cinematic Universe*. These efforts may become a thing of the past, which means the jobs of those crew members are also at risk.

Finally, the COVID-19 pandemic has also accelerated the mass adoption of streaming services. The last cinema loyalists have been pushed to this medium. Even if the restrictions were to be lifted overnight, the cinema may still be facing a consumer exodus.

## Cineplex: Should you steer clear?

There is legitimate reason to be fearful for the movie theatre industry right now. Cineplex just reopened its doors in the late summer, but a second wave of COVID-19 may push closures in the fall. This may push the company into a dire position in late 2020. Cineplex is simply too dangerous even for the most maverick investors right now.

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