Why Did Cineplex Stock Fall Again?

Description

The share price of **Cineplex** (TSX:CGX) fell nearly 30% on October 5, extending a terrible 2020 pandemic rout. At the time of writing, Cineplex stock trades at less than $5 per share.

That compares to more than $30 per share at the beginning of the year. Should Cineplex stock be on your buy list?

Why did Cineplex stock drop so much?

The new plunge in Cineplex stock occurred after U.K.-based **Cineworld** shocked the market by announcing it would close all of its theatres in the United States and the United Kingdom.

Cineworld had agreed to buy Cineplex late last year, but pulled out of the deal in June due to the pandemic. In recent months, Cineplex maintained the position that Cineworld should follow through on the purchase that valued Cineplex at more than $2 billion. Cineplex stock jumped from $24 to $34 when the two companies revealed the deal in December 2019.

Cineplex now has a market capitalization of $307 million. Given the announcement made by Cineworld, the odds appear slim that a deal of any kind is now possible to merge the two companies.

Film industry hammering theatre chains

Theatres need blockbuster films to attract audiences. Social-distancing requirements already make it tough to make money in the current environment. The larger problem, however, is a lack of films.

A number of studios decided to postpone the release of anticipated films. The latest blow that apparently pushed Cineworld to close operations for two months was the delay of the new *James Bond* film.

This follows other delays, including highly anticipated super hero films. In addition, some movies went straight to streaming in major markets, completely bypassing the theatres. **Disney** decided to release *Mulan* on its streaming service, charging a US$30 fee to see the movie on top of the monthly subscription for the other content.

Industry watchers wonder if this is simply a one-off decision due to the pandemic or if it hints at the future of the film business. If Disney and other studios can get enough revenue and profits directly through streaming, they might simply cut out the theatres.

COVID-19 threat to Cineplex stock

Cineplex operates 164 theatres across Canada. A number of provinces are experiencing a new wave of coronavirus cases, increasing the risk that theatres might be forced to close again. If this happens through the popular December season, Cineplex could see additional pressure on cash flow.

Even if the theatres remain open, and there is decent content to show, people simply might be too afraid and decide to stay home.

Cost is another issue. Families that relied on government aid in recent months will see the assistance start to disappear. Deferrals on mortgages and other debt payments are expiring. In addition, the reduced wage subsidy might push up unemployment levels in the coming months.

All of this could cause people to eliminate non-essential spending.

Opportunity?

Vaccines are expected to be widely available by the middle of next year, so the theatres could start to get back to normal operations in the second half of 2021.

In the meantime, Cineplex might get bought out by a venture capital firm or even one of the streaming players. Betting on a takeover can be risky, but it wouldn’t be a surprise to see a deal materialize in the next few months. In the event a bidding war occurs, Cineplex stock could regain the $10 mark.

That said, contrarian investors might want to search for other cheap opportunities today. The stock looked cheap at $10 at the end of August when Cineplex reopened all of its locations. The latest plunge might not be the end of the story.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Date
2025/07/29
Date Created
2020/10/06
Author
aswalker