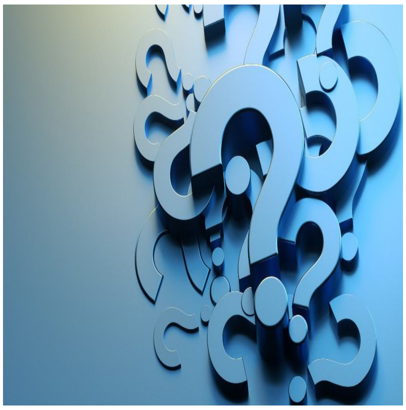

Why Did Cineplex (TSX:CGX) Stock Slump 29% Yesterday?

Description

Shares of **Cineplex** (TSX:CGX) fell 29% on October 5 to close trading at $4.75. The stock is now trading at a record low and has lost 86% since the start of 2020. Cineplex was trading at over $50 a share back in May 2017 and has been one of the worst-performing stocks on the **TSX**.

According to a Bloomberg report, the stock's massive decline was due to the delayed release of the latest James Bond movie, which is now expected to release after the first quarter of 2021. Cineplex stock has been badly hit due to the COVID-19 pandemic and was recently permitted to screen movies under certain capacity restrictions.

However, there is a threat that a second wave of the dreaded virus might lead to another round of shutdowns, which will send the stock lower.

Analysts downgrade Cineplex stock

Adam Shine, an analyst from **National Bank Financial,** downgraded Cineplex stock to a "Hold" from a "Buy" rating over the weekend shortly after the James Bond movie was officially postponed.

In a research note accessed by Bloomberg, Shine claimed, "With each film postponement, the dominoes keep dropping and materially jeopardizing the effort of movie theaters to monetize a reopening that began this summer, but hasn't had much to offer audiences in terms of new releases."

Last week, Cannacord Genuity downgraded Cineplex to "Sell" from a "Hold" rating and lowered its 12-month price target from $8 to $7. The analyst is concerned over the rising debt risks of Cineplex and expects debt covenants to be renegotiated.

Cineplex ended Q2 with over $2 billion in debt and revenues expected to fall close to 70% in 2020, the company might have to restructure its covenants. Cineplex raised $316 million via a convertible issue in July to increase liquidity. This bond, due in 2025, fell 10% yesterday and is currently trading at $0.89.

What's next for investors?

Some Canadian cities have already ordered movie theatres to close due to the second wave of COVID-19. Cineplex just reopened its locations over a month back and is now facing the risk of another shutdown.

It's quite clear the stock will remain volatile in the short term, and right now it seems only positive news such as a vaccine development can propel shares higher. Cineplex has been hammered in 2020 and faces several headwinds which have resulted in a cheap valuation.

Value and contrarian investors might be eager to buy the stock at a massive discount. But we can see Cineplex is trading at rock-bottom prices for multiple reasons. The company's sales are expected to reach pre-COVID levels by 2022, which means the recovery period will be slow.

Cineplex is also grappling with mounting losses and analysts expect the stock to report a net loss of $5 per share in 2020, compared with a net profit of $0.74 a share in the prior-year period.

Is the worst over for Cineplex investors or will the stock remain range-bound as we enter the final quarter of 2020?

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)
2. TSX:NA (National Bank of Canada)

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Category

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