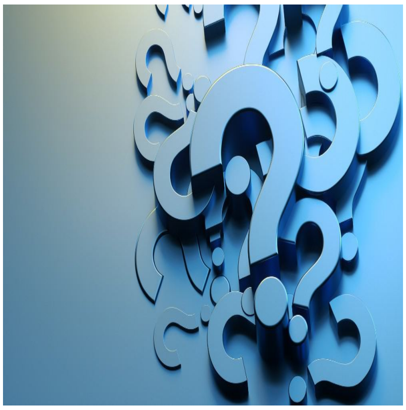

Trading Under $5: Is Cineplex (TSX:CGX) Stock a Buy?

Description

Just eight months ago, **Cineplex** (TSX:CGX) stock was trading near $35.

The outlook seemed bright. There were several potential blockbuster films in the lineup, and there was a deal on the table with Cineworld, a U.K.-based movie theatre operator.

But that all changed in March. COVID-19 sent the world into a panic.

While many industries are in the midst of a recovery from the pandemic, movie theatres have been left behind.

With Cineplex stock now trading below $5, is this stock a buy?

Failed acquisition

In 2019, Cineworld agreed to acquire Cineplex at $34 per share.

The deal seemed destined to go through until movie theatres around the globe shut their doors due to the COVID-19 pandemic. In March, Cineworld announced it would close all 787 cinemas across 10 countries due to the coronavirus.

Shortly thereafter, Cineworld announced it no longer intended to move forward with the acquisition. The announcement of the broken deal sent Cineplex shares plummeting, dropping over 20% in a single session.

Investors hoped the worst was over for Cineplex — that the stock had nowhere to go but up.

They were wrong.

Shares of Cineplex traded around $10 for most of the spring and summer, but since late August, the stock has torpedoed to less than $5. As of this writing, shares are trading at $4.63.

Cineplex faces more shutdowns

Late last week, Cineplex stock shed almost another 30% on renewed fears that a second wave of coronavirus cases could shut down theatres (that have opened since the pandemic) and delay the reopening of other venues (that have yet to reopen since March).

These fears have impacted the movie studios' release dates of upcoming movies. Guaranteed blockbusters, like the latest installment of the James Bond franchise, *No Time To Die*, have delayed their debuts.

The movie industry had counted on these blockbusters to welcome fans back into theaters after a long drought. These delays have dashed any hopes to salvage the last few months of what has been a disastrous year for fans, studios, and theatre operators.

The premiere of *No Time To Die* had previously been moved from April to November because of the pandemic. The film has now been further delayed until April 2, 2021. According to the film's website, the film was pushed back "in order to be seen by a worldwide theatrical audience."

Industry insiders had been speculating whether studios would stand by their upcoming release dates.

Last month, the highly anticipated film *Tenet* opened to lacklustre box office returns.

The sci-fi epic, which cost approximately US$200 million to make, has so far made only US$41 million in America and US$243 million internationally.

This film served as a test run for the pent-up demand of moviegoers and to gauge whether the public would feel safe returning to theatres.

The bottom line

Even with a stock price under $5, any investment in Cineplex should be considered risky. While there is the potential for a huge profit, there is an equal risk that the stock will fall further.

With the volatility in the stock, the failed acquisition, and the uncertainty surrounding moviegoers' return to the theatres, I would hesitate to buy Cineplex, even at this low price.

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