Why Cineplex (TSX:CGX) Just Plunged Another 50%

Description

Don't look now, but **Cineplex** (TSX:CGX) shares are back on the retreat, with shares pulling back 27% last week and 53% since the start of September. Undoubtedly, many folks are worried over another round of non-essential business closures as the second wave of COVID-19 accelerates heading into year's end. Higher-risk, non-essential businesses like movie theatres could be doomed to shut their doors for an indefinite amount of time, as this year's major theatrical releases get delayed to 2021 (*No Time to Die*) or pushed straight to streaming services (*Mulan, Soul, Greyhound*).

There's really no telling how bad the second wave could get at this juncture. If we're still without a safe and effective vaccine by the summer of next year, I find it increasingly likely that film producers will consider selling film rights to major streamers to avoid diminishing interest with audiences. MGM's *No Time to Die* has already suffered its second delay, with the film now scheduled for an April 2021 release to the discontent of Bond fans.

Don't try to be a hero with a fast-falling knife like Cineplex

Back when Cineplex reopened its doors, I urged investors to continue avoiding the stock given the high chance of reopening rollbacks, delayed film releases, and the weak state of Cineplex's balance sheet, which left it at risk of going insolvent amid the COVID-19 crisis.

"Even with the recent box office reopening, I'm not a buyer of the stock because the insolvency risks are far too high, and the company's growth profile looks to be stunted as a result of its poor liquidity positioning entering this crisis," I wrote in a prior piece outlining why CGX stock was a sell when shares were trading at around $9 and change (shares are now at $4 and change, with no bottom in sight).

"If all goes smoothly, the company could find itself free cash flow positive within the next two quarters. The company also raised over $300 million, improving its liquidity positioning to an acceptable level. Still, growth expectations are now muted, and the company could find itself skating on very thin ice through the duration of this pandemic."

All is not well!

With COVID-19 cases spiking in various localities, all is not well for Cineplex, which could find itself falling under some pressure from restrictive financial covenants in the coming months. With the latest COVID spike, I'm now doubtful that Cineplex can get its free cash flow in the green this year and would encourage investors to stay on the sidelines until we have more clarity with this horrific pandemic.

Although Cineplex still has an "acceptable" liquidity positioning, its balance sheet still looks to be on shaky footing. If the second wave of COVID cases is far worse than most investors were expecting, Cineplex stock may still be miles away from a bottom.

The Foolish takeaway on Cineplex

At the time of writing, Cineplex is one of the fastest-falling knives on the entire **TSX Index**. Cineplex stock plummeted another 6.5% on Friday, and with fears of further shutdowns, there's a real risk that shares could continue nosediving below a buck. The theatrical movie slate is not only being pushed out, but it's also thinning away, as streamers look to scoop up their rights.

Today, CGX shares trade at 0.9 times book value, a multiple that I think is still too expensive given Cineplex's insolvency risk.

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Date

2025/08/20
Date Created
2020/10/13
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