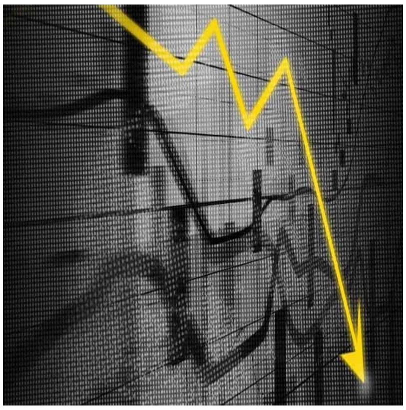

Cineplex Stock Is Crashing: Should You Be Buying?

Description

Shares of **Cineplex** (TSX:CGX) are falling, again. The movie theatre operator suffered another setback last week when the Ontario government announced it would be entering a "modified stage two" in certain parts of the province in the hopes of curbing a rise of COVID-19 cases. Additional restrictions have been imposed in Toronto, Ottawa, and the Peel region which include the shutdown of movie theatres. The restrictions began on Saturday and will last for 28 days.

It's a tough pill for Cineplex, which, in August, opened up all of its theatres across the country. CEO Ellis Jacobs believes the move by the province isn't correct, stating that "We feel that these forced closures, given our proven track record, are excessive and do not consider our team's efforts, of which we are very proud." With no cases of COVID-19 traced back to its theatres since they re-opened, Cineplex believes it's taken the necessary steps to keep its customers safe and shouldn't have to shut down.

Although the shutdowns apply to just three parts of the province, at well over five million people, they impact a significant chunk of the country. It makes Cineplex's recovery a bit more challenging, even if the shutdowns prove to be temporary. The company is already operating at reduced capacity to follow COVID-19 protocols, and so it needs every customer it can get right now.

Cineplex's shares are down more than 45% in just the past month and crashed heavily when reports came out that the British cinema company Cineworld would temporarily shut down its locations in the U.K. and U.S. earlier this month. Cineworld is the company that backed away from a $2.8 billion deal for Cineplex in the middle of the pandemic, allegedly as it "became aware of a material adverse effect" by the Canadian company.

The fear of more shutdowns has put investors on edge as governments don't consider movie theatres as essential as other businesses, and they are the most at risk when there are more restrictions in place. While it's just three areas in Ontario that are now dealing with increased restrictions, there could be more to come if there isn't enough of an improvement in the number of COVID-19 cases across the country.

Should you consider buying shares of Cineplex?

Trading near its 52-week low, Cineplex's stock is down more than 85% this year, and may never return to the more than $30 a share it was at to start 2020. When a business isn't able to operate at capacity, it's a considerable risk that investors should take very seriously. The longer it takes for the country to get COVID-19 under control and for the economy to return to normal, the longer it'll take for Cineplex to get back to operating at pre-pandemic levels — something that will be critical for its long-term success. And until that happens, it becomes a fight for survival for the company as it could run out of money in the meantime.

Cineplex could double, even triple in value if things go well. But they aren't going well right now, and this is an extremely high risk stock to own today. For risk-averse investors, you're better off looking at safer stocks to invest in.

CATEGORY

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