



## Will Cineplex (TSX:CGX) Go Bankrupt?

### Description

Last month, I'd suggested that investors sell **Cineplex** ([TSX:CGX](#)) and [focus on another stock](#) that peddles a different kind of entertainment. Today, Canada's top movie theatre operators looks like a dismal investment. The industry itself is facing an existential crisis. Is this company doomed to face bankruptcy in the near term?

### Why Cineplex stock has fallen sharply over the past month

Shares of Cineplex have dropped 45% month-over-month as of close on October 13. The stock has plunged 85% in 2020. Last week, I'd discussed why Cineplex took a [huge hit](#) to start the month of October.

Cineworld, the massive Britain-based movie theatre company, announced that it would halt operations after *A Time to Die* was delayed once again, sending shockwaves through the industry on an international scale. Even scarier was Cineworld's letter to U.K. Prime Minister Boris Johnson and his culture minister. The company warned that its business may no longer be "viable" if this environment persists.

This news throttled Cineplex stock, as well as its peers like **AMC Entertainment**. Cineworld and Odeon, the two largest operators in the U.K., have warned that they could run out of cash before the end of the year at the current rate. Until this crisis abates, companies in this space will need to rely on the flexibility of creditors.

### Can the movie theatre industry survive?

The COVID-19 pandemic has brought the movie theatre industry to its knees. However, Cineplex and its peers had demonstrated wobbly legs even leading up to 2020. This is largely due to the threat posed by streaming services. Streamers like **Netflix**, **Amazon**, and others have drawn away media consumers from all over the globe. Because of this, movie theatres have been almost entirely reliant on the performance of blockbusters to drive revenue.

A crisis like this could bring about a new era for the film and movie theatre industry. Companies like **Disney** are bleeding cash. It may be a long time before we see studios invest in massive projects like the Marvel Cinematic Universe that have been powered by movie-goers.

In late June, Cineplex warned shareholders that there is “significant doubt about (its) ability to continue as a going concern”. This was before the second wave of COVID-19 spurred governments to reintroduce restrictions. Worse, Hollywood is sitting on major releases until the environment provides the opportunity for more profits. Of course, if the movie theatre industry collapses in the coming months studios will have an even bigger problem on their hands.

## Is Cineplex still a toxic stock?

It is nearly impossible to recommend Cineplex stock to investors right now. The company is facing steep losses and a worsening climate for the industry. Like the airline sector, movie theatre operators are hoping for a COVID-19 vaccine before the end of the year. However, the damage may already have been done by the pandemic.

Millions more have been converted to streaming services in 2020. Cineplex stock is a danger, and the company is facing the very real risk of bankruptcy in the months ahead.

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