Cineplex (TSX:CGX) Stock Plummets 29% in 1 Day: Buy or Sell?

Description

Theatre operators can kiss profits from film exhibitions goodbye in 2020. Cinema operations are back, although capacity in theatres is limited in compliance with public health guidelines. Canada's **Cineplex** (TSX:CGX) hopes moviegoers will return in droves with the reopening of its 164 theatres across the country.

Unfortunately, the road ahead is fraught with uncertainties. Odds are stacking up against the nation's iconic theatre operator. The situation is beyond control. On October 5, 2020, Cineplex shares tanked 29% from $6.69 to $4.75. A James Bond film could have contributed to the stock's sharp one-day plunge.

Canadian pastime

In the last week of September 2020, Cineplex heralded the return of over 1.5 million guests since Canada Day. The company boasted selling almost 60,000 hot dogs and more than 460 million kernels of popcorn. It was time to seize the moment with the coast-to-coast reopening of its theatre and entertainment venues.

Dan McGrath, Cineplex's CEO, said Canadians miss their pastime — watching movies on the giant screen. The cinematic experience is incomparable when watching a film in UltraAVX, IMAX, D-BOX, and 4DX. Movie lovers should be excited about upcoming films such as *Wonder Woman 1984* and *Black Widow*.

However, a potential blockbuster next month will not be shown. Instead of a November 2020 release, MGM Pictures is pushing back the playdate of the James Bond film *No Time to Die* to April 2021. It's the fifth movie of actor Daniel Craig as the lead character.

Magic is gone

In Q2 2020 (quarter ended June 30, 2020), all Cineplex theatres and entertainment venues were closed. The company generated $3.3 million in revenues from home delivery food services. On the digital commerce side, registered users in the Cineplex Store climbed 47% versus the same period in 2019. Device activation soared by 120%.

For the first half of 2020, total revenues dropped 62% (from $803.5 million to $304.8 million) compared to the first half of 2019. Cineplex's net loss was $277.3 million versus the $12 million profit last year. Regaining the pre-coronavirus theatre occupancy level is doubtful in the near term.

Shutdowns are back

Startling news came out from Toronto last week. Public health experts recommended that the province close cinemas, casinos, conference venues, gyms, fitness centres, and cinemas. It includes a ban on indoor service at restaurants, bars, and nightclubs.

The implementation of a modified form of stage-two lockdown in Toronto is another black to Cineplex. CEO McGrath tweeted his disappointment saying the forced closures of theatres are excessive. Aside from Toronto, the hot spots with rising COVID-19 cases are Ottawa and Peel. One Cineplex employee at the Varsity Cinemas in the Manulife Centre has tested positive for COVID-19.

Bad script

Box office accounts for almost 75% of Cineplex's revenues. With only 25% seating capacity in 1,687 screens and a shortage of Hollywood flicks, the company will continue to bleed cash.

The stock is incredibly cheap at $4.63, but if it's down 86% year to date, there's no attraction to consider investing in Cineplex. Management might need to change the script and create a new business model. Movie streaming at home is a safer alternative.

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