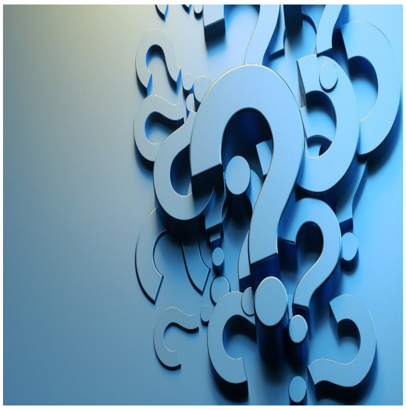

Should You Buy Beaten-Down Cineplex (TSX:CGX) Stock?

Description

As some businesses in Canada begin to recover, many continue to suffer from the impact of the coronavirus pandemic. That's the case for **Cineplex** (TSX:CGX). The movie theatre operator recently suffered another setback after the delay of the release of the latest James Bond film. Cineplex stock is currently trading below $5. Let's explore the details to better understand its performance.

Cineplex stock has been deeply hurt by lockdowns

As the lockdown triggered by the pandemic began in March, theatres were some of the first businesses to be forced to shut down temporarily. Cineplex outlets, Canada's largest media and entertainment company, were closed for nearly six months. It was finally able to begin a gradual reopening across the country around the last week of August, with coronavirus-related warning measures in place.

However, with the resurgence of COVID-19 cases across the country and partial lockdowns in some provinces, a large portion of avid moviegoers continue to stay away from movie theatres. And this is reflected in the performance of Cineplex shares after the reopening.

Cineplex shares fell sharply on March 19, plunging to a low of $8.84, amid the March stock market crash inflicted by the pandemic. Its share price has fallen more than 60% in the past six months and almost 50% in three months. It is down almost 90% year to date (YTD).

Cineplex stock fell nearly 29% on October 5, to an all-time high of $4.75, after the release of the James Bond film *No Time to Die* was postponed to April 2021.

Cineplex is still facing many challenges

The company was hit by a double downgrade on Sunday, as analysts at **BMO** and **National Bank** both lowered their estimates for the company's shares.

BMO analyst Tim Casey downgraded the stock to underperformance and cut his 12-month price target in half to $6 a share, while National Bank's Adam Shine lowered his point view on a performing sector with a target price of $8.50 per share.

In a note to customers, Shine said the rapid deterioration of the theatre's operating environment and lingering uncertainty about the pandemic have led to the degradation.

Canaccord Genuity downgraded Cineplex from a Hold to a Sell rating and lowered its 12-month price target to $7 from $8 on rising debt risks.

Cineplex faces other challenges, including the rise of video-on-demand streaming and the ongoing legal battle over Cineworld Group PLC's decision to abandon an agreement to buy Cineplex for $2.15 billion. Cineplex was also removed from the S&P/TSX Composite Index on September 21.

The movie theatre operator reported a 95% year-over-year decrease in total sales in the second quarter (ending June 30, 2020), amounting to $22 million. It incurred a net loss of $98 million from continuing operations in the second quarter of 2020 compared to net income of $22 million in the second quarter of 2019.

Cineplex movie theatre attendance fell to 6,000 in the second quarter of 2020, from 17 million in the second quarter of 2019.

It appears wiser to stay on the sidelines until Cineplex's situation gets better. Cineplex stock was liked for its monthly dividend, but the movie theatre operator stopped paying dividends in February of this year.

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