



Cineplex (TSX:CGX) Crashes to \$5: Has the Time to Buy Finally Arrived?

Description

When I'd urged investors to ditch shares of **Cineplex** ([TSX:CGX](#)) while they were close to all-time highs back in the summer of 2017, little did I know that the Canadian movie theatre kingpin would suffer an implosion of epic proportions. Fast forward to today, and Cineplex stock has lost over 91% of its value, punishing Canadian investors who stuck by the former market darling through a crisis that started well before the COVID-19 pandemic kicked shares further into the seemingly endless abyss.

Last year, I'd warned that Cineplex's pains were just getting started amid the profound rise in video streamers, and although the stock had already shed just over half of its value did not mean that shares couldn't get cut in half again. Indeed, the COVID-19 crisis caused shares to be slashed in half another two times. In the face of a worsening second wave of COVID-19 cases, Cineplex finds itself in a position of profound vulnerability, as the chances of further lockdowns could further cripple Cineplex's business just months after it reopened its doors.

How much lower can Cineplex stock go?

Attempting to catch a falling knife can be hazardous to your wealth. Cineplex doesn't have the best liquidity position in the world. So, there's a real chance that the movie theatre darling may not make it on the other side of this pandemic should worse come to worst.

Although Cineplex now has a somewhat satisfactory liquidity position to ride out another wave of nationwide lockdowns, there's no telling just how many more waves of the insidious coronavirus it will take before the firm falls into insolvency.

In yet another devastating blow, Ontario recently modified its stage two restrictions to include the shuttering of movie theatres in select cities that were hit hard by the second wave. I think that's a preview of what's to come for the rest of the nation amid a worsening second wave, making it nearly impossible for Cineplex to get back into free cash flow positive territory over the next two quarters. To make matters worse, Cineplex may run into deeper trouble with looming restrictive covenants.

"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.” [I wrote](#). “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.”

Who should take a chance on Cineplex stock amid its tumble?

Cineplex now looks like a speculative bet on the timely elimination of the coronavirus, a bet I wouldn't make unless you're a fearless young investor who's willing to lose the entirety of your invested principal.

If a vaccine breakthrough were to happen out of the blue, Cineplex could easily triple or quadruple over a very short timespan, enriching investors who stood by it through this trying time. Given recent vaccine trial setbacks, though, I'd curb your optimism, as Cineplex stock could be headed below \$3 before it has a chance to sustain a rally back to the double digits.

Foolish takeaway

Everything that could go wrong for Cineplex has gone wrong. And although it doesn't rain every day, there's no guarantee that Cineplex will survive to see the sunnier days on the other side of this pandemic. As such, those keen on the name should be ready for immense short-term pain, with a chance of irrecoverable losses if they seek a shot at a profoundly [outsized gain](#) from Canada's most beloved cinema.

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Author

joefrenette

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