



## Ontario Shuts Down Again: Cineplex (TSX:CGX) Stock Plummets

### Description

Canada is entering a dastardly state, as [shutdowns return](#) due to the second wave of COVID-19. Ontario ordered the closure of indoor businesses such as bars, restaurants, and theatres again. For **Cineplex** ([TSX:CGX](#)), it's a tragic development.

After reopening all of its 164 theatres and entertainment venues across the country on August 21, 2020, Cineplex will have to close 28 theatres and three entertainment venues in Ottawa for 28 days in compliance.

The news is scaring investors and sending the stock plummeting. On October 19, 2020, the share price is \$4.88 or a year-to-date loss of 86%. Cineplex's market capitalization is down to \$309.06 million.

### Positive 2019

If you review last year's business performance, Cineplex reported total revenue of \$1.66 billion and a full-year net income of \$28.89 million. The net income was 62% lower than in 2018, as movie theatres lost big time to streaming services. COVID-19 is making it worse for the Box Office segment.

In Q1 and Q2 2020, the company posted a net loss of \$178.4 million and \$98.9 million, respectively. The quarter's total revenue ended June 30, 2020, was a measly \$22 million, mainly from food services. Also, Cineplex did not receive material cash rent in the second quarter, as the processing of relief measures with landlord partners is ongoing.

### Historic unpredictability

Cineplex's CEO Ellis Jacob admits film exhibitors are facing historic unpredictability during the pandemic. He adds, however, the movie theatre chain is prepared to be "agile and nimble." Jacob told investors at the company's webcast that executives are ready to "make the necessary changes required" to push through in the next six to 12 months.

Jacob finds the closure order excessive since management is implementing protocol measures to keep moviegoers safe across Ontario. The teams' efforts are all for naught. Another hurdle for Cineplex is the constant changing of Hollywood release schedules.

MGM and Eon Productions are pushing back the release of the 25th James Bond movie. Instead of November 2020, the release of *No Time To Die* starring Daniel Craig will be on April 2, 2021. Even this news sent the stock crashing. Cineplex also filed a lawsuit against the world's second-biggest cinema operator.

In June 2020, the U.K. movie exhibitor **Cineworld Group** backed out from a \$2.8 billion proposal to acquire Cineplex. The court proceedings will commence next year in September. Cineworld is closing all its theatres in Britain, Ireland, and the U.S.

**BMO** Capital is downgrading Cineplex's rating from market perform to underperform. The bank's analyst Tim Casey cites elevated concerns regarding the COVID-19 pandemic in Canada and Ontario particularly. He adds the release postponements of Hollywood flicks are considerations, because they pose a potential balance sheet risk for Cineplex in 2021.

## Dividend Aristocrat no more

The [material decreases in revenues](#) prompted management to suspend dividend payments. Cineplex lost its Dividend Aristocrat status in a huff in 2020. It will take a lot more to recover from this limpness. Streaming services have the inside track, given that people are staying home rather than risk infection in enclosed movie theatres.

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