Cineplex (TSX:CGX) Stock Just Slumped 10%

Description

The broader markets witnessed a sell-off yesterday on fears of a second COVID-19 wave. The **S&P 500** was down almost 2% while the **iShares S&P/TSX 60 Index** fell 1.3% on October 26. However one of the top losers on the **TSX** was **Cineplex** (TSX:CGX), a stock that fell over 10% to close trading at $5.05.

Cineplex is the largest movie theatre company in Canada. As cinema halls were shut amid the pandemic, Cineplex stock slumped to multi-year lows. It has in fact lost over 85% in 2020 and is valued at a market cap of $320 million.

Cineplex stock fell 29% on October 5 due to the delayed release of the latest James Bond movie which was expected to increase footfall across the company's various outlets.

Even prior to the pandemic, Cineplex was underperforming the broader markets due to the influx of online streaming platforms that enabled people to watch content at their own convenience. If you thought the first wave of COVID-19 was bad for Cineplex, another round of economic shutdowns may spell doom for the company.

Ontario recently ordered the closure of indoor businesses including bars, theatres, and restaurants as coronavirus infections are on the rise. Cineplex had in fact reopened all of its 164 venues in Canada on August 21 and will now have to close 28 theatres and three entertainment outlets in Ottawa for a four-week period.

The massive slump in sales

Cineplex reported sales of $1.66 billion in 2019 with a net income of $29 million. In the first six months of 2020, its net loss stood at $277 million as total sales for Q2 was just $22 million. However, the company's net income declined by 62% year-over-year in 2019 as well, due to rising competition from the streaming segment.

The decline in revenue and earnings led Cineplex to suspend its dividends earlier this year, causing it to lose its Dividend Aristocrat status.

In 2020, analysts expect sales to fall over 70% to $491 million, while earnings loss is forecast at $5.04 per share. While sales could well rise 137% to $1.16 billion, there's still a lot of uncertainty surrounding the company.

What's next for Cineplex investors?

Cineplex ended Q2 with a debt of $2 billion. While this provides it with liquidity to tide over the ongoing sluggishness, Cineplex might have to restructure its debt covenants. The company also raised $316 million via a convertible issue due in 2025.

Cineplex stock is trading at a forward price to sales multiple of 0.3 with a price to book ratio of 1.1. These low multiples may be attractive to value and contrarian investors. However, we know there are several questions that need to be answered.

The company's highly leveraged balance sheet will remain a huge cause of concern. Even if lockdown restrictions are eased, the footfall will be significantly lower as people will prefer to stay indoors.

The threat from streaming players will continue to weigh on revenue as well, over the next decade, as consumer behavior continues to shift. Cineplex stock does not look like a good bet for long-term investors and might continue to trail the broader markets.

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