COVID-19 Pandemic: Is Cineplex (TSX:CGX) Doomed?

Description

People have been going to the movies to experience the magic of cinema for over a century. In popular film franchises like *James Bond*, our hero typically hits a point of extreme desperation before beating the odds and saving the day. This fall, the movie theatre industry was hoping that *007* could swoop in to save the day in 2020. To quote a villain from one of the highest-grossing films in recent years; reality is often disappointing. **Cineplex** (TSX:CGX) and the movie theatre industry now find themselves in a dire situation as we look ahead to the holiday season.

The next installment in the Bond franchise, *No Time to Die*, was delayed a second time and changed to an April 2, 2021 release. This delay came after the release of Christopher Nolan's *Tenet*, which failed to generate the kind of numbers Hollywood wanted to see in the late summer. Cineplex and its peers had hoped that this release would inject some enthusiasm back into the industry. Instead, it looks like a dark winter is ahead.

Will Cineplex and its peers run out of cash?

Earlier this month, I'd discussed the possibility that Cineplex could go bankrupt. The company has relied on extensions from creditors as its real estate assets have proven a drain while movie theatre seats remain empty. Its peers are experiencing a nearly identical dilemma.

Cineworld, the top movie theatre operator in the United Kingdom, shuttered its doors earlier this fall. This was sparked by the second delay of *No Time to Die*. Moreover, analysts have warned that Cineworld is at risk of running out of cash within weeks unless it secures a lifeline from investors. **Bank of America** has said that the company will burn through its cash reserves over the next six months.

AMC Entertainment, the top cinema company in the United States, is also dealing with a crisis moment. The company has said that its $418 million cash position of September 30 will be depleted by the end of 2020 or early 2021 if it does not receive a cash infusion. It warned that holders of the stock would “likely suffer a total loss of their investment” in the worst-case scenario.

Streaming services are twisting the knife

The cash challenge is not the only problem facing Cineplex and its peers. Streaming services have already taken a bite out of the consumer base for movie theatres. However, the COVID-19 pandemic may also change the nature of movie releases. **Disney** drew the ire of cinema operators earlier this year when it released *Mulan* on its streaming service Disney Plus.

Now, *No Time to Die* has sparked a bidding war among the top streaming companies. With no clear end in sight for this pandemic, there must be temptation to entertain offers. According to Forbes, **Apple** and **Netflix** had been in conversations with MGM over global distribution rights. Reportedly the deal would be worth at least $600 million. MGM has denied the reports.

If such a deal were to occur, it would have potentially devastating short and long-term effects on the movie theatre industry. Moreover, if the release was a success for the purchaser, it could open the floodgates and break down one of the last strongholds for traditional cinema.

Is there any reason to buy Cineplex stock today?

All the way back in November 2017, I’d suggested that the future for Cineplex and the cinema itself was uncertain. Now, movie theatres would likely jump at the chance to adopt that descriptor. With a second round of COVID-19 restrictions sweeping across the developed world, there is no reason to bet on Cineplex.

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