Bankruptcy Warning – Is Cineplex Stock (TSX:CGX) Headed to $0?

Description

The year 2020 was supposed to be a great year for moviegoers – with many potential blockbusters hitting the big screen.

Instead, this year has turned out to be a nightmare for studios, theaters, and fans. The COVID-19 global pandemic decimated the entire entertainment industry — and theaters like **Cineplex** (TSX:CGX) were especially hard hit.

Cineplex stock down 72% this year

Despite a rally in recent weeks, shares of Cineplex are down approximately 72% this year. The stock was trading around $34.00 at the beginning of January. As of this writing, shares of Cineplex are trading at $9.49. Over the past year, the stock has traded as low as $4.32.

Cineplex saw a 95% decline in revenue in its second quarter. When the pandemic began in March, movie theaters across the country were forced to close. The fact that Cineplex earned any revenue at all was due to the re-openings of some theaters.

With the second wave of the coronavirus hitting Canada, more stringent lockdowns appear eminent, and it looks like these restrictions may continue well into 2021.

More bad news for Cineplex

While investors hoped that promising news about a vaccine would breathe new life into Cineplex stock, last week more bad news rocked the industry.

On December 3, **AT&T**'s WarnerMedia announced that all 2021 theatrical releases from Warner Bros. will debut simultaneously on HBO Max.

This announcement sent shock waves through the industry. Shares of **AMC Entertainment Holdings** (NYSE:AMC

) tanked 16% immediately following the news.

Earlier in the year, AMC warned that it could run out of cash by the end of 2020 or early 2021. Investors in AMC worried about the risk of bankruptcy. AMC ended its third quarter with over US$5.8 billion worth of debt on its balance sheet.

In response to the move by WarnerMedia, AMC CEO Adam Aron said, “Clearly, WarnerMedia intends to sacrifice a considerable portion of the profitability of its movie studio division, and that of its production partners and filmmakers, to subsidize its HBO Max start-up. As for AMC, we will do all in our power to ensure that Warner does not do so at our expense. We will aggressively pursue economic terms that preserve our business.”

Movies go direct to streaming services

The closure of theaters has caused movie studios to get creative with their distribution channels.

Disney was the first major studio to experiment with “direct-to-streaming,” when its Pixar animated movie, *Onward*, debuted on Disney+ instead of the big screen. Since then, other studios have followed suit.

Disney’s much anticipated live-action remake of its popular animated film *Mulan* debuted on Disney+ last week. The company released the US$200 million film on its subscription steaming service for a one-time fee of US$30.

NBC Universal negotiated with theatre chains like AMC and Cineplex, to show movies exclusively in theatres for a shorter period than normal, before releasing the films to on-demand platforms.

Unfortunately, none of these plans by major studios bodes well for Cineplex.

The bottom line

We all hope that the release of a vaccine will allow us to return to some normalcy in 2021, but it may be too late for Cineplex.

While theatres may be allowed to fully reopen some time next year, time will tell *if and when* the public will feel safe returning to theaters. And while there may be some pent-up demand from hard-core movie fans, many patrons may feel more comfortable watching blockbusters from the comfort of their couches.

CATEGORY

1. Investing
2. Top TSX Stocks

TICKERS GLOBAL

1. NYSE:AMC (AMC Entertainment)
2. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing
2. Top TSX Stocks

Date
2025/08/16
Date Created
2020/12/10
Author
cdye