



Why I'm Staying Far Away From Cineplex (TSX:CGX) Stock in 2021

Description

Over three years ago, I'd looked at how the [evolution of the entertainment industry](#) was impacting **Cineplex** ([TSX:CGX](#)) and its peers. At the time, streaming platforms like **Netflix** were already making their mark in a big way. The COVID-19 pandemic has accelerated trends that are very damaging for the movie theatre industry and possibly for the Hollywood film system at large.

Today, I want to discuss why I'm not touching Cineplex stock in 2021. I hope to see the movie theatre industry overcome these tough challenges, but investors should look elsewhere.

Cineplex: The future of its business is in question

Movie theatres in North America and across the developed world were forced to close their doors starting in the late winter and early spring. There was a brief reprieve in the summer for Cineplex, but this was short-lived. Obviously, this reality has been a disaster for traditional movie theatres. However, this has not been the case for streaming services.

This was a banner year for top streamers like Netflix, **Amazon Prime**, and particularly **Disney+**. According to data released by ANTENNA, a subscription analytics company, the premium SVOD market total subscriptions grew 37% on an annual basis in third quarter of 2020. That was up from 34% growth reported in the second quarter. Netflix experienced slower growth in its most recent quarter. However, Disney+ picked up the slack. It was responsible for two-thirds of total industry growth in the third quarter.

These numbers should trouble the movie theatre industry. Disney's blockbuster slate has dominated the traditional cinema for over a decade. As its streaming service becomes more dominant, it may look to tap that well going forward. This already occurred with the release of *Mulan* last year. Cineplex and its peers were already given [reason to worry](#) after Warner Bros. revealed it would release its entire 2021 film slate on HBO Max.

Movie theatres may not open for months

The success of streamers aside, Cineplex and its peers may not be able to conduct business for months to come. Timelines for new restrictions and lockdowns continue to be nebulous, with political leaders firmly in a reactive state. Because of this, there is no way to project when movie theatres will be able to return to business as usual. Cineplex may not be able to fully open its doors until the summer. By then, the landscape will likely have grown even more grim for traditional cinemas.

There are few positives to glean from Cineplex stock

Before the spring of 2020, Cineplex offered a stellar dividend that was appealing to income investors. Its stock had struggled with volatility in the second half of the 2010s, but it could always lean on this strong point. That ended early last year when it was forced to suspend its monthly distribution.

Investors can expect to see the company's fourth-quarter and full-year 2020 results in early February. Cineplex will hope to bounce back from a grim 2020, but there is little reason to be optimistic, as this industry faces mounting hurdles.

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