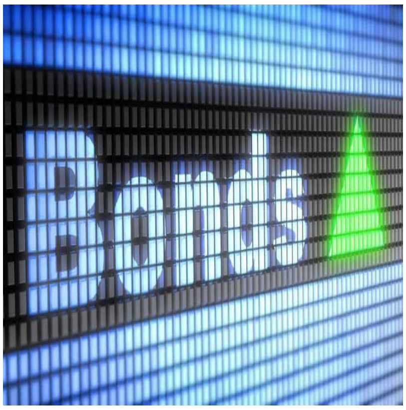

Cineplex (TSX:CGX) Is Selling a High-Yield Bond as Investors Bank on Recovery

Description

Through no fault of management, Canada's largest chain of movie theatres suffered a 74.9% drop in total revenue in 2020 compared to 2019. All business segments' revenues (film & entertainment content, media, and amusement & leisure) fell significantly. **Cineplex** (TSX:CGX) Store, however, reported a 39% growth in total registered users.

Management suspended dividends and curbed capital expenditures in April 2020 to conserve cash. The shares of the former dividend king sunk to as low as $4.54 on October 14, 2020. In Q4 2020, the company's net cash burn was approximately $24.8 million per month. As of February 26, 2021, Cineplex trades at $13.82 per share, or 59% lower than it was a year ago.

Fortunately, despite the total disruption of business operations, Cineplex still had access to capital. Management successfully sold $250 million worth of unrated bonds recently. The company's blowout bonds will mature in 2026. Cineplex's second-lien, secured, senior bonds yield 7.5% compared to the average high-yield bond's offer of 3.5%.

Economic recovery trade

Investors around the world lined up to purchase Cineplex bonds. Thus far, deal arrangers said the preliminary indications of interest are roughly $1 billion. The garnered orders represent five times the deal size. Cineplex planned was to raise a minimum $200 million by the end of March 2021. It would sell bonds to meet conditions for a covenant waiver agreed to with its existing lenders.

Bank of Montreal and **Scotiabank** are the bond sale managers. It appears the interested parties are positioning for a post-pandemic reopening. Also, the strong demand indicates that investors seek to play the economic recovery trade. They are banking on Canada's execution of its vaccination campaign.

Six million doses in March

The federal government targets the vaccination of Canada's entire population once vaccine supply is continuous and in large enough quantities. Meanwhile, most provinces and territories have plans to go about the vaccine rollouts and who are the priority groups.

According to Howard Njoo, Canada's deputy chief public health officer, around 2.9% of Canadians have received at least one vaccine dose as of February 2021. Health officials expect the percentage to increase significantly throughout March. About six million doses from **Pfizer** and **Moderna** combined should arrive in Canada by the end of March.

Scrapped deal

Cineplex filed a suit against Cineworld Group PLC suit in the Ontario Superior Court in July 2020. The company is seeking damages after the London-based theatre operator walked out from a $2.8 billion deal to acquire Cineplex, citing breach of contract.

Aside from damages, the Canadian movie theatre chain also seeks compensation for the $664 million in debt and transaction expenses. Cineworld would have paid the amount had the deal been successful. Cineworld filed a Statement of Defence and Counterclaim that denies Cineplex's claims. The schedule of the trial is September 2021.

Salvation and risks

The deal with Cineworld was supposed to be the salvation for Cineplex that was already experiencing declining attendance in 2019. Now, the merger is off due to COVID-19. The transaction would have provided Cineplex about 12-18 months of operating liquidity.

With the bond sale, Cineplex would have ample liquidity to ride out the storm. However, investors face risk if vaccines don't roll out in time and moviegoers aren't back to theatres in 2022.

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