



Will its Legal Battle Propel Cineplex Stock Higher?

Description

After a disastrous 2020, the movie theatre industry has finally something to be optimistic about, moving into the latter stages of 2021. For one, Canada's vaccine rollout is gaining traction and is now at par with its peers. While movie theatres needed to wait until July for the third stage of reopening, box office returns can be significant for movie theatre operators like **Cineplex** ([TSX:CGX](#)). Indeed, Cineplex stock has been among the [bright spots](#) on the TSX thus far this year.

That being said, the recent legal tussle with **Cineworld Group** due to Cineworld [reneging from its buyout offer](#), citing pandemic adversities, is now hitting the headlines. Let's see why this could matter for Cineplex shareholders.

Updates on legal proceedings

According to Cineplex, Cineworld delayed a takeover unfairly in the hope that this pandemic would default its value. Cineplex is seeking \$2.8 billion as compensation at the Ontario Superior Court of Justice. Alan Mark, who is representing Cineplex, claims his client took actions that were consistent throughout the industry to preserve business value.

However, Cineworld is arguing that Cineplex derailed from the normal course, as the latter deferred its accounts payable for 60 days. Moreover, the company also reduced spending to a bare minimum. It discontinued payments to landlords, suppliers, movie studios, and distributors during the onset of this pandemic.

In reply, Mark stated that Cineworld executives were in the loop of the actions Cineplex was about to take. They did not oppose these moves before Cineworld decided to scrap the deal altogether. Mark further added that Cineworld did not leave any paper trail of its plans, as the discussions were mainly telephonic.

That being said, Paul Steep, Cineworld's lawyer, mentioned that changes in operations were not due to the pandemic. In fact, they were due to Cineplex reaching its debt ceiling, standing at \$750 million, for a successful merger. He said that Cineplex's debt was already over \$700 million in March before

lockdowns first hit Canada.

This would make Cineworld responsible for risks and obligations it is not looking forward to.

Cineplex is calling its first witness, CFO Gord Nelson, after remarks from Cineplex for the case.

Bottom line

The first updates on these legal proceedings are intriguing to watch. For Cineplex investors, there may be some value to be had, should the court rule in its favour. While this is likely to be a protracted battle, Cineplex stock could see another catalyst from a court ruling that it should have been taken over.

Indeed, a significant amount of uncertainty remains in this case. Investors banking on any sort of legal victory may be waiting for some time to see a result. However, this legal battle will be an important one for the industry and represents some potential value capture for a company that remains well below pre-pandemic levels.

Aggressive investors may want to take a flyer on Cineplex stock at these levels. However, conservative investors may do well to sit on the sidelines and wait.

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