



Will This Cinema Stock Be a Blockbuster for Investors?

Description

IMAX Corporation (TSX: IMX)([NYSE: IMAX](#)), a leader in big screen entertainment, offers a unique, “immersive” cinematic experience by combining proprietary software, theater architecture, and equipment. Its network of screens is becoming an increasingly important distribution platform for major Hollywood films around the globe.

Shares of IMAX are flat year to date, versus a 6% gain in the **S&P/TSX Composite Index** (TSX: ^OSPTX). But in 2013, IMAX shares gained over 40%, handily beating the broader Canadian market.

Here are two reasons why IMAX could be a potential blockbuster for investors.

Strong lineup

A strong lineup of prospective box office hits over the next two years holds great promise for IMAX.

Just last month, IMAX announced an agreement with a division of **The Walt Disney Company** ([NYSE: DIS](#)) to release several of its upcoming films in IMAX theaters. Many of Disney’s most highly anticipated, live-action films will find themselves on IMAX’s screens, including Marvel’s *Captain America: The Winter Soldier*, *Maleficent*, Marvel’s *Guardians of the Galaxy*, Marvel’s *Avengers: Age of Ultron*, *Tomorrowland*, and the highly anticipated *Star Wars: Episode VII*.

This announcement comes on the heels of tremendous success enjoyed by the movie *Gravity*, only the third film in history to earn \$100 million worldwide in IMAX theaters alone.

International expansion

At the end of last year, IMAX had 837 theater systems in operation: 720 commercial and 117 in institutions, like museums and science centres. This represents growth of nearly 15% over 2012. In 2013, the company signed a total of 277 theater commitments, roughly double the number in 2012, and a company record. IMAX’s current backlog of 407 theaters is also a company record.

A significant portion of the company’s recent growth comes from international markets, a trend that is

expected to continue. In 2013, nearly 84% of the company's new theater agreements were for international markets, including China, India, Latin America, and Eastern and Western Europe.

Interestingly, 2013 marked a turning point for IMAX – the first year international markets surpassed Canada and the U.S. in terms of revenue. China continues to be the company's fastest-growing market. At the end of 2013, the company had 173 theaters operating in China, with an additional 239 theaters in backlog, all scheduled for installation over the next seven years.

Foolish bottom line

International expansion and a strong lineup of blockbuster releases are promising indicators for future revenue and profit growth at IMAX. But its still too early to tell how this movie will end.

The stock is expensive, with a forward price-to-earnings ratio of 28.6, representing an 8% premium to its five-year average and a 19% premium to the S&P/TSX Composite Index. And its expansion in China poses risks. In addition to the challenges IMAX may face enforcing its intellectual property rights, the Chinese government regulates the number and timing of Hollywood films released in the country.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:DIS (The Walt Disney Company)
2. NYSE:IMAX (IMAX)

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Author

jklacey

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