3 Key Takeaways From Cineplex Inc.'s Third-Quarter Report

Description

Cineplex Inc. (TSX: CGX), the largest operator of movie theaters in Canada, announced third-quarter earnings on November 13. The results fell short of analysts' expectations, but the company's stock responded by rising nearly 5%. Let's take a look at three of the most important takeaways from the report to determine if we should be buying into this rally or if we should wait for it to subside.

1. The earnings per share and revenue results missed expectations

As mentioned before, Cineplex released third-quarter earnings before the market opened on November 13 and the results came up short of analysts' expectations. Here's a chart of the results and how they stacked up versus expectations and its results in the year-ago period.

Metric	Reported	Expected	Year-Ago
Earnings Per Share	$0.25	$0.38	$0.41
Revenue	$299.0 million	$313.6 million	$298.4 million

Source: Financial Times

Earnings per share decreased 39% and revenue increased 0.2% compared to the third quarter of fiscal 2013. Cineplex also reported a 10.8% decline in same-store box office revenues and noted that this weak performance was a result of a weak film slate, especially when compared to last year's record summer film slate, and the negative impact of certain film release dates being moved from the third quarter to later dates.

2. Attendance declined, but revenues per patron increased

In the third quarter, Cineplex's attendance dipped by nearly one million, but the company was able to offset a portion of the negative impacts associated with slowed traffic by generating higher revenues per patron. Here's a chart of its attendance and revenues generated per patron versus the year-ago period.

Category	Q3 2014	Q3 2013	Change
Attendance	18.04 million	19.01 million	(5.1%)
Box Office Revenues Per Patron	$9.01	$8.84	1.9%
Concession Revenues Per Patron	$5.11	$4.81	6.2%

Once again, the company noted that the decline in attendance was a result of a weak film slate and film release dates being moved back, but the higher revenues per patron were due to a higher percentage of sales of premium priced products. Also, the reported concession margin per patron increased 5.8% to $4.01.

3. EBITDA and the EBITDA margin declined

Lastly, Cineplex's earnings before interest, income taxes, depreciation, and amortization (EBITDA) declined 16.4% to $46.90 million and the EBITDA margin took a big hit, contracting 330 basis points to 16.1%. The company continued citing a weak film slate for this weak performance, but also noted that it faced higher costs relating to new business opportunities, like the ongoing development of the Cineplex Store. Fortunately, Cineplex's film slate in 2015 is very strong, so this short-term weakness will not affect its long-term growth goals.

Should you go long Cineplex's stock today?

Cineplex is one of the most dominant companies in Canada, with a market share of over 75% in the movie theater industry, but a weak product mix led to lackluster third-quarter results, in which both earnings per share and revenue fell short of expectations. However, the company has a bright fourth quarter ahead of it and it has a plethora of highly anticipated films set to be released in 2015, so its stock has rallied nearly 5% higher on the day of the release. Even after this rally, Cineplex's stock represents an intriguing long-term investment opportunity, because it still trades at just 23.7 times forward earnings and has a bountiful 3.3% dividend yield.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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