Can Cineplex Inc. Get Back on Track?

Description

Cineplex Inc. (TSX:CGX) released its Q4 2016 report this week, and the results were underwhelming to say the least.

Attendance is down, and it looks like the company may struggle to grow in the years going forward. Sure, *Rogue One* was a box office hit (it earned US$1 billion), but this clearly didn't help Cineplex report great numbers. The company has underperformed over the last two years as the stock remained relatively flat.

The movie-and-popcorn business model has been the same for many decades, and it's increasingly difficult to grow, even with the innovative initiatives the company has put forth. Is Cineplex heading for a pullback to lower levels? Or is the quarterly miss a one-off that will provide a buying opportunity for long-term income investors?

Underwhelming Q4 quarterly results

Cineplex reported Q4 2016 results which saw earnings fall almost 70% for the quarter and 42% for fiscal 2016. Quarterly revenue decreased 5.4% to $385.4 million, and attendance plummeted 12% for Q4 on a year-over-year basis. The results were still not very impressive at all, and the stock could be on a sustained rally back to lower levels.

On the bright side, food-service transactions were up 3% to $5.75 on a per-customer revenue basis. This is thanks to the help of innovative new menu options in the company's VIP service.

There's no question that last year's Q4 results were fantastic thanks to *Star Wars: A Force Awakens*, which provided a huge boost to the top and bottom line for Q4 2015. When comparing this quarter to the last one, there's no question that this year's results couldn't compete. The movie business will see ups and downs, and Cineplex is highly dependent on the content that is released for a given period of time.

Where's the company headed?

Looking forward, I believe *Star Wars: The Last Jedi* will give Cineplex a similar boost that they got from *The Force Awakens* in 2015. There are also a ton of other blockbusters being released in 2017, such as *Spider-Man: Homecoming* and *Justice League*, that will most likely get the attendance back up to higher levels.

Cineplex has also expressed interest in creating its own original content. The movies being produced by Cineplex won't be big-budget box office hits, but there's a good chance that such an initiative could provide the company with a nice boost to earnings during a period when box office hits are scarce.

What about valuation?

Although the stock has gone virtually nowhere in the last two years, it is still quite pricey. Shares currently trade at a 4.4 price-to-book multiple and a 17.2 price-to-cash flow multiple, both of which are higher than the company's five-year historical average multiples of 3.6 and 14.9, respectively. The dividend is also considerably lower at 3.16% than the 3.4% historical average.

I would wait for the stock to pull back to more reasonable valuations before considering owning shares. There's a good chance we may see shares drop by a considerable amount this year, so you should definitely keep this name on your radar and buy the stock when the dividend yield goes above 3.5%.

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joefrenette