Why Cineplex Inc. Is Plummeting Today

Description

Cineplex Inc. (TSX:CGX), one of Canada's leading entertainment and media companies and its largest owner and operator of movie theatres, announced its second-quarter earnings results this morning, and its stock has responded by falling over 10% in early trading. Let's take a closer look at the earnings release and the condition of the industry to determine if we should use this sharp decline as a buying opportunity or a major warning sign.

The results that failed to impress the market

Here's a breakdown of 10 of the most notable statistics from Cineplex's three-month period ended on June 30, 2017, compared with the same period in 2016:

Metric	**Q2 2017**	**Q2 2016**	**Change**
Total revenues	$364.08 million	$338.03 million	7.7%
Net income	$1.38 million	$7.21 million	(80.9%)
Earnings per share – diluted	$0.02	$0.12	(83.3%)
Adjusted EBITDA	$38.1 million	$42.8 million	(11%)
Adjusted EBITDA margin	10.5%	12.7%	(220 basis points)
Adjusted free cash flow (FCF)	$18.01 million	$25.55 million	(29.5%)
Adjusted FCF per share	$0.283	$0.403	(29.8%)
Box office revenues per patron	$10.36	$9.89	4.8%
Concession revenues per patron	$6.03	$5.74	5.1%
Attendance	16.5 million	16.9 million	(2.2%)

What should you do with Cineplex now?

It was a very weak quarter overall for Cineplex, and it capped off a tough first half of the year for the company, in which its attendance decreased 3.6%, its net income decreased 15.1%, and its adjusted EBITDA decreased 2.4% compared with the year-ago period. It's unlikely that the industry will recover in the second half of the year either. Last night, **AMC Entertainment Holdings Inc.** (NYSE:AMC), the world's largest owner and operator of movie theatres, provided very weak guidance for its second quarter and went on to state that it anticipates a "very challenging third quarter."

The movie theatre industry has been under immense pressure as streaming companies like **Netflix**, **Amazon** Instant Video, and Hulu have continued to change consumers' habits, and I think this pressure will only intensify in the years ahead. Also, there has been talk that movie studios have been exploring the option of offering in-home movies to consumers as early as a couple weeks after theatrical releases, which I think would cripple movie theatre operators.

With all of this being said, I would hold off on investing in Cineplex today and only revisit the idea of an investment if the industry takes a turn for the better in 2018.

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