Why Cineplex Inc. May Fall Even Further

Description

Cineplex Inc. (TSX:CGX) shares nosedived below 10% intraday before recovering to be down 8.19% on August 2, 2017, following a sub-par earnings report which pretty much had red across the board with the exception of revenue, which increased 7.7% year over year. In a previous piece published two weeks ago, I warned investors that it was time to sell Cineplex and gave four reasons why shares would get hammered in the short to medium term.

Is it time to part ways with Cineplex?

Cineplex has been a market darling that has delivered capital appreciation as well a generous dividend for many years. If you're a long-term investor, then you may be attached to your stocks, and it may be difficult for you to trim or sell a position that you've held in your portfolio for many years. It's a part of investing psychology and, unfortunately, getting sentimental with stocks is not a good thing, especially in the case where a stock is suffering from stagnant growth at an absurdly expensive valuation.

Cineplex has many headwinds right now, and it's going to be a huge challenge, but fortunately for long-term investors, the management team is making moves to reignite long-term growth as it diversifies away from the traditional movie and popcorn business. The company's recent partnership with Topgolf will partially offset the sub-par growth numbers over the long term, but investors need to realize that it takes a really long time to get these golf facilities built, and they're not even guaranteed to offset the major headwinds that Cineplex is facing.

Tough Q2 2017 quarter could cause a further sell-off in CGX

Cineplex saw its revenue increased to $364.1 million, which was up 7.7% year over year. This is probably the extent of the good news, as net income was clocked in at $1.38 million, down 80.9% compared to the same quarter last year. Diluted earnings per share were an underwhelming $0.02, down 83.3% year over year. Attendance was also down 2.2% year over year to 16.5 million.

On the bright side, box office and concession revenues per patron were up by 4.8% and 5.1%, respectively, on a year-over-year basis. Unfortunately, this was a small drop of positive in an ocean full of negatives, which sums up the quarter in a nutshell.

Bottom line

There are many reasons to sell Cineplex because a further plunge may be on the horizon. Although bottom fishers brought shares back up at the end of the day, I believe that the bears will get the best of the stock over the short to medium term as the headwinds mount.

Cineplex is making moves to spark growth again, but these initiatives will do little to nothing in the near term. If you own shares of Cineplex, then you might want to consider trimming, as a much better entry point may be in the cards later in the year.

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