Has Cineplex Inc. Stock Fallen Too Far Too Fast?

Description

Cineplex Inc. (TSX:CGX) stock has fallen 24% from a month ago. It was trading near $50 per share in late July. Boom! The shares now trade under $38 per share and offer a compelling yield of almost 4.5%, which is a level we haven't seen since 2012.

Why have the shares declined?

Cineplex's second-quarter results were released in early August. Notably, its media revenue decreased by 9% to $36.6 million compared to the second quarter of 2016.

The press release stated that this was "primarily due to a decline in cinema advertising and lower digital signage installation revenue." That said, media revenue only accounted for ~11.6% of its total revenue in 2016.

This will negatively impact Cineplex if a trend of declining media revenue develops and companies decide to spend more of their advertising budget in online media, for example.

CINEPLEX

The business

Compared to its media revenue, Cineplex’s box office revenue is more important as it contributed~48% of its 2016 revenue.

The box office revenue will fluctuate depending on the quality and quantity of the movies released throughout the year, and it’s not something management can control.

Cineplex has a near-monopoly position, as it has ~78% of Canada’s box office market share and serves 75 million guests per year. That said, management recognizes its reliance on the quality and quantity of the movies in any given year and has been diversifying its entertainment and media business.

Late last year, Cineplex opened the first location of The Rec Room, which offers dining, live entertainment, and amusement gaming experiences all in one place.

Seeing positive results in that location, the company has opened a location in downtown Toronto, and there are two more under construction.

In late July, Cineplex announced an exclusive partnership with Topgolf, which “will see the opening of multiple Topgolf venues in markets across [Canada] during the next several years.” Topgolf venues will be the destinations for entertainment, socializing, and golf in any season.

“Every Topgolf venue features dozens of high-tech, climate-controlled hitting bays for year-round comfort, a chef-inspired menu for year-round deliciousness and hundreds of Associates eager to help create the moments that matter.” Cineplex’s role will be to manage the venues’ day-to-day operations.

Topgolf already has 33 successful venues in the U.S. and the U.K. It decided to expand in Canada as it has been its “top-requested country among [its] fans.”

Dividend

At under $38 per share, Cineplex offers a yield of nearly 4.5%. The company has increased its dividend per share every year since 2011, and its dividend has increased by 4.1% on average per year during that period.

Investor takeaway

Cineplex offers a decent ~4.5% yield, and its dividend will likely grow at a pace that roughly matches inflation. At **Thomson Reuters**, the mean 12-month target on the stock is $49.20, which represents +30% upside potential. The stock looks like a buy today and a stronger buy on any further dips.

In summary, Cineplex is an income stock that offers growth potential for the next few years, especially with its diversification in The Rec Room and the partnership with Topgolf.

Remember also that it has 8.5 million members for its SCENE loyalty program, which allows the members to get additional discounts and earn points towards free movies.

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