Another Sign That Cineplex Inc. Isn't a Strong Investment

Description

Cineplex Inc. (TSX:CGX) has seen its stock fall mightily the past month, and it has recently announced it was going to have to offer discounted prices to attract moviegoers. The company said that the prices for the last week of August would be reduced to match the theatre's low prices that are normally reserved for Tuesdays.

Cineplex blames poor movies at this summer's box office for the struggling attendance numbers. Not only does this mean the company will have lower admission revenues, but concession sales will also be impacted.

Going to the theatres is an expense that many consumers can do without

Although the discounted pricing is for a limited time, it's a reminder that the business is a discretionary expense for consumers that many can do without. As costs rise as a result of rising interest rates, the prospect of going to a movie theatre and spending money on concessions as well as tickets is going to be less and less appealing with a subscription service like CraveTV or **Netflix, Inc.** likely costing you less than one trip to the movie theatre.

For consumers on a budget, not going to the movies is probably one of the easier ways to cut expenses as cash gets tighter. The stock is down almost 30% in the past month, and this news will only help sink the stock further.

There is little reason for optimism going forward

When a company discounts its price, that is usually a last resort, since it is a sign of distress and desperation. What this tells us is that Cineplex has likely seen a poor summer of attendance, and it's not just the past few weeks that have pushed the company to slash prices. We won't know the full scope of the impact until the quarterly earnings come out, and if the lost revenue is more than expected, that won't help a stock that has already taken a beating.

Opportunity for contrarian investors

One reason investors might be attracted to buy the stock now is because there is a lot of pessimism priced into the shares. Poor attendance figures will certainly encourage analysts to lower expectations for the next quarter's results, and, given that Cineplex didn't have a strong Q2, forecasts might already be low for the company. This may make it easier for Cineplex to reach expectations and could even provide a surprise result, which would push the stock price up on earnings day.

Increase in dividend yield

Another reason you could consider investing in the company is the decline in price is pushing its dividend yield closer to 5%, and right now it sits at about 4.8%. However, if the struggles continue, there could be a danger in the dividend being cut.

Bottom line

Cineplex is in a declining industry, and whether you want to blame poor movies or some other factor, the fact remains that there are many alternatives available to watching movies in a theatre, and it is hard to see much growth going forward. In the short term, there could be opportunities to make a decent return if the market has overreacted to the company's news and recent performance, but in the long term I think the business model will face some significant challenges.

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djagielski