Cineplex Is Trying to Shore Up the Cracks With a Share Buyback

Description

Cineplex Inc. (TSX:CGX) looked good heading into the summer, but the company has taken a beating this past quarter. Three months ago, the stock was trading over $50 per share, and it now trades under $40. Last week, Cineplex announced a plan to buy back up to 10% of its common stock to help stem the tide. The company has up to a year (until September 6, 2018) to make use of this buyback option. Under the bid made to the TSX, Cineplex can buy back up to 36,798 shares on any trading day.

Why the buyback?

In a release from September 5, Cineplex stated its reasoning for the buyback: “The Board of Directors of Cineplex has concluded that the market price of Cineplex’s common shares, from time to time, may not reflect the inherent value of the company and purchases of common shares pursuant to the bid may represent an appropriate and desirable use of funds.” Based on its statement, Cineplex seems to believe its stock is undervalued, and buying back shares is likely to raise the stock’s price, at least temporarily. Note that just because Cineplex can buy back up to 10% does not guarantee it will buy back that much stock.

Stock buybacks don’t just increase stock prices. They also tend to increase the stock’s earnings per share (EPS), so each share will receive more of Cineplex’s earnings once the buyback happens. This can make a stock more attractive to investors. Sometimes buybacks produce good results for companies, but these results can be temporary. Manipulating a stock’s price won’t help for long if profits keep falling.

Dismal summer results

The buyback comes on the back of a dismal summer box office in 2017. Summer is usually the time of big blockbuster movies that bring in large audiences from May through July. There were a few strong performers, notably *Wonder Woman*, but there were many expensive flops this year, including *King Arthur* and *Valerian*. The summer box office failed to break $4 billion for the first time since 2006. The overall 2017 box office is down 6% from 2016 so far. The Labour Day weekend had the worst results in 20 years.

What else is Cineplex doing to improve its fortunes?

Cineplex recently announced it will add two more IMAX theatres in Toronto and Regina. It charges customers more for seats in its IMAX theatres, so it’s understandable why Cineplex believes these are worth the cost. The company also announced a new virtual reality theatre in Toronto to try to draw in larger crowds with new technology. In trying to diversify into entertainment that isn’t strictly movies, Cineplex has also announced a partnership with an American company named Topgolf, giving customers the opportunity to play micro-chipped golf games.

Bottom line

Cineplex isn’t just sitting back and waiting for its stock to rebound. Investors should be happy to see it taking decisive action to improve its performance with its new additions. The stock buyback might also entice leery investors, at least in the short term. Time will tell if these changes pay off for the company. In the short term, Cineplex is still a questionable buy, but a sudden box office tear can always send the stock higher again.

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