Will Consumers Propel Cineplex Inc. and Great Canadian Gaming Corp. in the Fall?

Description

Analysts and experts entered 2017 with concerns that record a debt-to-income ratio in Canada could put added stress on consumers. Statistics Canada has shown strong GDP and job numbers, but some key consumer staples have suffered.

Shares of **Cineplex Inc.** (TSX:CGX) have declined 22% in 2017 and 21% year over year as of September 24. On September 19, Cineplex announced a cash dividend of $0.14 per share, representing a 4.25% dividend yield.

Cineplex has introduced some new initiatives to boost growth, including the opening of new Rec Room emporiums. The Rec Room is a large facility that houses modern electronic entertainment for all ages. Cineplex made a $150 million-dollar investment in the emporiums that it hopes will generate double-digit returns over the next five years.

However, it was low theatre attendance that drove an 11% decline in adjusted EBITDA. Investors soured on Cineplex, and the stock dropped to its lowest point since the summer of 2013. The North American summer box office was one of the worst seen in decades, driven by a lack of interest in the slate offered up by Hollywood.

September has provided some possible optimism for Cineplex investors heading into the fall and winter. The horror hit *It* has had a monster month, and *Kingsman: The Golden Circle* has continued the momentum. It looks to be setting up to be a record month. Expected hits like *Justice League*, *Thor: Ragnarok*, and the eighth *Star Wars* installment could see the fall and winter continue to put up big numbers.

Great Canadian Gaming Corp. (TSX:GC) stock declined 4.37% on September 22 after news broke that British Columbia would review alleged money laundering at Lower Mainland casinos. The report in question indicated that significant volumes of unsourced cash were received at Lower Mainland casinos. Great Canadian Gaming owns and operates the River Rock Casino Resort.

Great Canadian Gaming released a statement the same day which declared that the company strictly adheres to provincial regulatory requirements regarding anti-money laundering. The report indicated that cash buy-ins of more than $500,000 were accepted at several locations.

Shares of Great Canadian Gaming have climbed 34% in 2017 and 48% year over year. The stock price jumped 17% on August 8 when it was announced that Great Canadian Gaming, along with **Brookfield Business Partners LP**, won the Toronto area casino bundle bid. The areas include 60 table games, over 4,000 slot machines, and more than 2,200 employees. The concession will last for 22 years, and the group could invest over $1 billion in that period.

Investors can usually count on casinos to perform well in a strong economy. The Ontario acquisition is expected to boost revenues up to 10-15% for Great Canadian Gaming. The investigation in B.C. could give investors an attractive opportunity to buy the dip.

Cineplex could also be in for a bounce back in the next few quarters off the improved economy and a much stronger movie slate in the fall and winter. The dividend also provides a solid income for any portfolio.

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