Cineplex Inc.'s Profit Decreases. Investors: Get Ready to Back Up the Truck!

Description

This past week, **Cineplex Inc.** (TSX:CGX) reported quarterly earnings, which saw a substantial decline from a year earlier. After the release, shares declined by close to 5% as fewer patrons visited the movies amid a poor movie lineup. As it often happens, the stock market is failing to price in a temporary weakness in the industry; instead, it's assuming this is the new norm.

At a current price of $36 per share, investors purchasing shares today will receive an annualized yield of almost 4.75% paid on a monthly basis. For income investors, this could be the dream, as the company is paying an average of only 50% of cash flow from operations (CFO) to sustain the dividend over the past two fiscal years. The catalyst will come as the revenue numbers return to a more normalized level once the movie lineup becomes more attractive.

But will it?

The good news for investors is that *Star Wars* is being released between now and year end, alongside another name younger viewers will be familiar with: *Jumanji.* If history is any indicator, Cineplex may be set for a substantial move upwards once earnings for the final quarter of the year are announced.

For those who are afraid that the problems experienced by Cineplex are isolated, there is no need to fret. U.S.-based **AMC Entertainment Holdings Inc.** (NYSE:AMC) reported earnings this past week, and the news was not very good. When a loss of $0.33 per share is an earnings beat, it is clear that things are not going very well in the industry.

AMC has not only had challenges increasing revenues and free cash flows, but it has also gotten caught up trying to integrate its most recent acquisition, which added a large number of movie theatres across South America. The opportunity presented by AMC is of a much higher risk/reward than Cineplex Inc. Although the challenges faced are similar, there is a slightly bigger headwind after any acquisition.

At a current price of US$12.50, investors will receive a dividend yield of more than 6.25%, as the company continues to undertake a share buyback. As of the most recent earnings report, the share buyback is only 30% complete with US$30 million down and US$70 million to go. The company carries a market capitalization of US$1.65 billion, which translates to the reduction of more than 4% of the total shares outstanding, assuming the share buyback is completed.

With two names to choose from, investors need not worry about the challenges faced by the movie theatre business. Instead, these lower share prices can be seen as a fantastic opportunity for investors to double their money in the next year.

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