



How Low Can Cineplex Inc. Go?

Description

There's no way to sugarcoat the latest quarterly report from **Cineplex Inc.** ([TSX:CGX](#)). It's butt ugly with negative numbers virtually across the board.

Fool contributor Joseph Solitro [chimed](#) in on the results, recommending investors stay away from CGX stock for the time being, because it's got too many headwinds to trend higher.

"Cineplex's stock is now down more than 29% year to date and more than 20% since I recommended avoiding the stock following its disappointing [second-quarter earnings](#) release on August 2, and I think Foolish investors should continue to avoid it, because [the headwinds facing](#) the industry are far too great to ignore," Solitro wrote November 7.

Hey, when you're right, you're right.

People aren't going to movies nearly as much these days, and that's borne out by the 12.8% decline in Q3 2017 attendance to 16.8 million.

However, before you write off Cineplex stock completely, you might want to consider several silver linings.

Attendance

It's easy to point to these numbers and conclude that movies aren't nearly as popular today, but that would be a mistake.

I've gone back over the third-quarter attendance and year-to-date numbers since 2013; they've averaged 18.5 million in the third quarter and 54.9 million year to date.

YearThird quarterYear to date

2017	16.8M	52.8M
2016	19.2M	56.7M
2015	19.4M	56.6M
2014	18.0M	54.6M
2013	19.0M	53.8M

As anyone who follows the movie theatre business knows, attendance is predicated on good films. If you get bad films, attendance goes down. The two go hand in hand.

Year to date, approximately 631 films have been released in the U.S. Those films have averaged US\$14.1 million at the box office in 2017 — a lower average per film than the four previous years. The next lowest year in term of box office was 2014, when the 706 films released in the U.S. averaged US\$14.7 million per film.

If you consider that, year to date, attendance at Cineplex through the first nine months of 2014, 2015, and 2016 all increased year over year, I would argue that attendance isn't the problem; the movies being produced are.

Now, there's still hope for the last two months of the year and into 2018 with *Star Wars: The Last Jedi* set to hit theatres December 15. The last two released at the end of 2015 and 2016 grossed US\$937 million and \$532 million, respectively.

Let's not write off the box office just yet.

BPP and CPP

Cineplex can't control the movies that are made, but it can influence the revenue it generates from the people who do go to the theatres.

In Q3 2017, it increased box office revenue per person (BPP) by 1.7% to \$9.81 and year to date by 3.3% to \$10.04. More importantly, it increased concession revenue per person (CPP) by 5.6% in the third quarter to \$6.01 and year to date by 5.2% to \$5.90.

So, in the third quarter, Cineplex managed to get \$15.82 per customer, \$0.48 more than in the same quarter a year ago. You want to see that number increasing on a yearly basis. Over the past four years, it's increased by 3.8% annually from \$13.65 in Q3 2013.

The Bank of Canada suggests \$13.65 in BPP and CPP in 2013 would be worth \$14.48 today based on inflation. This means Cineplex has additional pricing power of \$1.34 or almost 10%.

That's very important to understand.

The overall mix

Cineplex has been busy adding to its core box office and food service revenue over the past four years. In Q3 2013, those two revenue streams accounted for 87.7% of sales. In Q3 2017 that was down to 73.3% overall.

Its amusement and leisure segment, which includes the Rec Room and Topgolf initiatives, now accounts for 14.5% of overall revenue and will continue to grow in the quarters and years ahead.

Does it suck that CGX stock is trading at a level it hasn't seen since 2013? You bet it does.

Can it come back from the \$30s where it's currently trading? It can if *Star Wars* gets the ball rolling. If not, 2018 is going to be another rough year for the company.

When there's blood in the water, that's the time to be buying. Cineplex isn't going anywhere. The good times will return. They always do.

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Date

2025/10/01

Date Created

2017/11/13

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