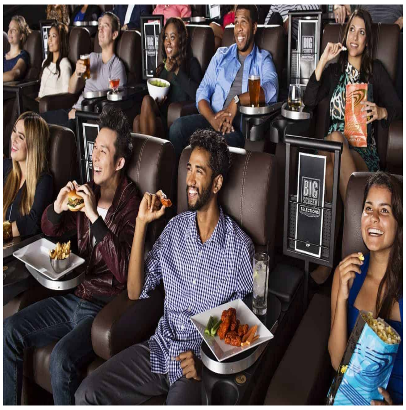

Cineplex Inc. Is a Great Long-Term Investment

Description

Cineplex Inc. (TSX:CGX) reported results this week that came in lower than expected, but despite those results, the company still poses plenty of potential for investors.

Let's look at those results and why Cineplex is still a viable investment option.

Quarterly results are lower, but are they that bad?

In the most recent quarter, Cineplex saw revenues dip 1.5% to $370.4 million compared with the same quarter last year. Net income for the quarter came in at just $17.2 million, or $0.27 per diluted share.

Free cash flow also dropped 19.1% to $37.9 million when compared with the same quarter.

Perhaps the most alarming of all figures, however, is attendance, which dipped 12.8% in the most recent quarter when compared to last year. Pundits are nearly unanimous in noting that this past summer box office season was the worst in decades.

That attendance drop is critical, as it has a direct impact on revenue. Equally concerning is the fact that the attendance drop comes in at the end of the quarter that includes the summer blockbuster season, where typically attendance and revenues soar.

Here's what those results are not showing

The problem with the most recent results, particularly around attendance figures, lies in the comparison to previous quarters. Whereas the summer season is typically the best-performing time of the year for the box office, there have been an unprecedented number of movies that were released during other periods, or, in the case of the most highly anticipated films of the year, they are not released yet.

This is a key point I've mentioned previously with respect to Cineplex, and one that is often overlooked by investors. Two upcoming movies — the *Justice League* movie, expected to release later this month, and the latest *Star Wars* installment before Christmas — are likely to be the two highest-grossing movies of the year, which should more than lift Cineplex from its current rout. A third candidate for highest-grossing film of the year, *Thor: Ragnarok*, was recently released and has already grossed over US$120 million at the box office as of this writing.

Isn’t the movie-and-popcorn model dead?

One of the most common criticisms of Cineplex is that the movie-and-popcorn model, which hasn’t changed much in over half a century, is losing its appeal, particularly as the proliferation of smart TVs, tablets, and phones allow us to stream movies from an increasing number of device.

Cineplex has countered this through several initiatives, all of which have become appealing revenue streams for the company and cater to the primary goal of getting customers onsite to watch an event and buy concessions.

Cineplex’s investment into the eSports sector is one such example. The eSports market is still very much in its infancy in Canada, but its popularity is growing, and Cineplex locations are the perfect venues to host events and tournaments.

The same could be said of Cineplex’s Rec Room business. The Rec Room is a large configurable space that can be set up to host anything from small birthday parties to large catered corporate events.

More recently, Cineplex announced a deal to show National Football League games at up to 50 of the company’s VIP screens around the country. Priced at just $5 a ticket, Cineplex will be relying on the concession sales of football fans to make this venture profitable.

Is Cineplex a good investment?

Cineplex has long been considered a great investment opportunity, particularly for those investors looking longer term. Income-seeking investors will also appreciate the monthly dividend of $0.14 per share, which, given the current stock price, results in a very impressive 4.60% yield.

Year to date, the stock has retreated 28%, which has provided an opportunity for new investors to buy Cineplex at a significant discount and benefit from that appetizing dividend. Cineplex is, in my opinion, still a great long-term investment.

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