Cineplex Inc. Is Down Over 30%: Is it Time to Buy?

Description

Cineplex Inc. (TSX:CGX) lives and dies by Hollywood. If the movies coming out are great, we know Cineplex is going to have a great quarter. And if the movies coming out are bad, then we know Cineplex is going to have a pretty bad quarter. And the most recent quarter, which Cineplex announced on November 7, was pretty bad.

Total revenues were down 1.5% to $370.4 million. Coupled with an increase in costs, net income was down 33.8% to $17.2 million. Management outright said, "…our third-quarter results were adversely affected by the quality of film product and the integration and ramp-up of new businesses."

I love going to the movies, and I don't think I went at all during the quarter, opting to wait until the movies were released to watch at home.

But Cineplex has been trending down for a few months now, leaving investors wondering if it's time to buy. I recommended you buy the dip on October 20 and remain convinced that this is a good place to start buying shares. Could it go lower? Sure. But after giving up nearly a third of its value, I am not sure if future drops are warranted considering the future is actually bright for Cineplex.

In the near term, we have a solid fourth quarter coming. *Star Wars: The Last Jedi* will be released in a month. When *The Force Awakens* was released, it had an amazing impact on the quarter. So, I fully expect the fourth quarter to be much stronger than the third. And on the topic of *Star Wars*, the origin stories will be coming out, and a new trilogy was just announced. Cineplex is going to have years of *Star Wars* material to boost its profits.

Cineplex is more than just a theatre company, which is something I've talked about for quite some time now.

The Rec Room, which was rolled out a year ago, is a large multi-purpose location that has games, food, sports, and everything else a 21st-century family would care about. What's nice about it is that it's not dependent on Hollywood; instead, it's dependent on people wanting to go out. The Rec Room contributed $6.3 million in food services and $4.3 million in amusement revenues.

On the topic of amusement revenue, Cineplex made a couple of acquisitions over the past year — Tricorp and SAW in Q4 2016 and Dandy in Q2 2017 — which are boosting amusement revenues significantly. In total, the company generated $48.9 million in amusement revenue — up $22 million over the prior period.

Going forward, Cineplex has plans to bring Topgolf sports entertainment complexes to Canada. Essentially, this is a new play on driving ranges and could be a big win for the company. In the U.S., Topgolf is seeing 26,000 visitors at Topgolf destinations every day with an average stay of two hours.

Could Cineplex dip lower? Of course it can. Timing the market is tough. However, Cineplex pays a monthly dividend of $0.14, and that’s not at risk. And because shares have pulled back so much, you’re earning a 4.5% yield. I think Cineplex has a lot going for it, and the next few quarters should be solid.

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jaycodon