Review of My Top Stock for January: Cineplex Inc.

Description

My top stock to kick off the year was **Cineplex Inc.** (TSX:CGX). Needless to say, it is time to eat a little bit of crow. Cineplex stock has dropped 18.1% in January, and trends for cinema attendance have not been encouraging. Let's take a look at what is going wrong, and what could possibly go right, as we look forward for Cineplex.

On January 15, **National Bank of Canada** reduced its earnings-per-share (EPS) estimates for Cineplex in 2018. It maintained a rating of "Sector Perform" for the stock. Cineplex last announced its third-quarter 2017 results on November 7.

Revenues, net income, and attendance were down 1.5%, 33.8%, and 12.8%, respectively. Box office and concession revenues per patron were up 1.7% and 5.6%, respectively. In the nine months leading up to September 30, revenues were still up 3.3% year over year. There is also reason for optimism considering the slate of high-performing movies that made up the fall and early winter slate.

Star Wars: The Last Jedi stormed out of the gate and boasted the second-highest weekend box office performance of all time, behind only its predecessor *Star Wars: The Force Awakens*. However, enthusiasm has tapered off dramatically, and as of now the film will likely fall more than $700 million short of the previous installment. Still, it has raked in over $600 million in North America and over $1.2 billion worldwide. The **Walt Disney Co.** property will churn out another *Star Wars* film this year, which should please cinemas. All three *Star Wars* installments have brought in at least $1 billion since Disney acquired Lucasfilm.

In spite of the impressive performance from Disney properties, there continue to be worrying trends for movie theatres. The National Alliance of Theatre Owners, a United States trade organization, released key cinema statistics for 2017 in early January of this year. Movie ticket prices rose 3.7% year over year. The organization estimated that 1.23 billion tickets were sold in 2017 — the lowest total since 1993.

Theatres are increasingly reliant on franchises that appeal to a narrower demographic of those willing to pay premium for a similar experience. Nine out of the top 10 box office performers in 2017 were either sequels or remakes. The exception was *Wonder Woman*, the first film in an already established cinematic universe. This business model could present major challenges in the long term.

On January 19, Cineplex announced a quarterly dividend of $0.14 per share, representing a 5.5% dividend yield. Cineplex is set to announce its fourth-quarter and full 2017 results in the next few weeks. Investors should expect some improvement from the third quarter, but sentiment will remain dim unless Cineplex and the industry at large can demonstrate improvement in 2018.

Cineplex stock is now hovering around a six-year low after it closed at $30.57 on January 22. I still like the dividend at Cineplex, and with fourth-quarter results pending, investors could be rewarded if they buy in to this steep dip. However, the downward trend of the industry makes Cineplex a risky hold for the long term.

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