Cineplex Inc.: Are We About to See the Credits for This Company?

Description

It was a painful 2017 for **Cineplex Inc.** (TSX:CGX) with shares dropping by nearly 40%. The company has given up so much of its gains that if you'd bought the stock five years ago today, you'd actually be down 1.6%!

Investors who have seen so much of the company's value evaporate must be questioning what to do and trying to determine if they should just get out of Cineplex entirely. If you listen to my colleague Ryan Goldsman, he believes that the fall is only getting started.

The first thing he argues is that Cineplex may be forced to cut the dividend. And I, unfortunately, think Ryan may be on to something. Last year was horrible for movie theatre attendance. In the first three quarters of the year, Cineplex had $41.5 million in profit and $35.5 million in cash flows from operations. However, Cineplex paid $78.5 million in dividends. How can a company pay more than it has available?

Admittedly, we are in the fourth quarter, and *Star Wars: The Last Jedi* generated a considerable amount of money, so it's certainly possible that **Walt Disney Co.** (NYSE:DIS) could come to the rescue with its variety of Marvel and Star Wars films coming out over the coming years. However, Cineplex can't survive on just Disney.

If Cineplex wasn't doing anything about this, I would have already recommended that investors get out. As just a movie theatre company, it's going to struggle to succeed. However, Cineplex is actually more than that.

Over the summer, I'd talked about a few other initiatives the company was working on that should help diversify revenue sources for the company.

The first is the Rec Room. These are 60,000-square-foot venues that offer video arcades, restaurants, and bars that individuals can enjoy irrespective of whether there's a movie playing or not. The Rec Room generated $6.3 million in food services revenue and $4.3 million in amusement revenues.

The second is its joint venture with Topgolf. Will Ashworth, a fellow Fool writer, described it perfectly:

"Topgolf is the bowling alley of the 21st century, only with better food and drink." Like the Rec Room, Topgolf doesn't require a movie to get people to come out to play, eat, and drink. Topgolf reports that it has 26,000 visitors per day, and the customers stay for at least two hours.

Unfortunately, what we have here is a company that is working as quickly as it can to change the makeup of the business, but it still has a significant dependence on Hollywood and, more specifically, Disney. We should know in the next few weeks how the company did during Q4; it might be enough to keep the company in a stable position.

However, like I said above, Ryan is on to something. If Cineplex is paying out more in dividends than it is taking in, it'll either have to issue debt to cover the dividends, or it'll be forced to cut. I would be cautious before trusting the 5.25% yield. It may not be here for long.

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