



Cineplex Inc.: 2018 Could Be a Monster Year

Description

Cineplex Inc. ([TSX:CGX](#)) was one of the worst performers on the TSX in 2017. The company's share price lost just north of 27% after poor box office numbers resulted in back-to-back disappointing quarterly results. In 2017, the North American box office revenue fell 2.7% over 2016, and the number of tickets sold dropped by 6.2%.

Critics will point to streaming services as the main reason for a declining box office. However, 2017 was expected to be a down year due to an underwhelming film slate. The company even forewarned investors that yearly box office revenues would most likely fall short of 2016's record year before rebounding in 2018.

On Thursday, Cineplex posted solid fourth-quarter and year-end results, which could not have come at a better time for the company. Despite a 2.1% dip in attendance, quarterly revenue jumped 10.6%, and adjusted free cash flow grew 30.2% over 2016 fourth-quarter results. The company's SCENE loyalty program also impressed, reaching 8.9 million members in 2017. That is significant penetration for a country with a total population of 36.29 million.

For those worrying about the sustainability of the company's dividend, it's currently sitting at approximately 70% of adjusted free cash flow. Its payout ratio as a percentage of earnings of 163% can be misleading as it considers non-cash items.

If *Black Panther*'s record-setting performance is any indication, the instant demise of cinemas is greatly exaggerated. Year to date, the North American box office is already 8.2% ahead of last year and 2.9% over 2016's record-setting pace. Although streaming services provide an unmatched level of convenience, the cinematic experience has yet to be replaced. The success of *Black Panther* is a concrete example of how a well-made film can turn into a cinematic event.

Moviegoers have plenty more to look forward to in 2018 with surefire blockbusters *Avengers: Infinity War*, *Jurassic World: Fallen Kingdom*, *Solo: A Star Wars Story*, and *Mission: Impossible — Fallout* destined to lead the box office to a record-setting year.

Although Cineplex's performance is currently tied to box office returns, it has been making strategic

investments to diversify its product offerings. It has invested heavily in virtual reality, alternative programming, and gaming. In 2017, revenues in its Media and Amusement sections grew by approximately 25% year over year and accounted for 23% of total revenue, up from 19.1% in 2016.

Bottom line

This year's impressive film slate is reason enough to be excited. However, when combined with its diversification strategy, the company is well positioned to post significant improvements over 2017.

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