Can Movie Theatres and Cineplex Inc. Bounce Back in 2018?

Description

Shares of **Cineplex Inc.** (TSX:CGX) have declined 33.5% year over year as of close on February 23. However, the stock jumped 6.38% a day after it had released its 2017 fourth quarter and full-year results.

The previous year was a difficult one for the cinema, raising questions about the viability of its business model for the long term. The 2017 summer box office was the worst in several decades, and attendance in North America was the lowest recorded by the National Association of Theatres since 1993. That said, rising ticket and concession prices have managed to maintain revenue growth going forward.

The rise of home entertainment and streaming sites like **Netflix, Inc.**, **Amazon.com, Inc.**, and even **Facebook, Inc.** are threatening the future of the cinema, especially among younger demographics. However, investors should not necessarily write off the old guard in 2018. The fourth quarter results for Cineplex are an encouraging glimpse into how the company and the business at large can bounce back in a big way this year.

Cineplex saw revenues jump 10% to $426.3 million compared to Q4 2016, and net income surged 23.4% to $28.8 million. The **Walt Disney Co.** properties, *Thor: Ragnarok* and *Star Wars: The Last Jedi* managed to propel revenues in the final quarter after a disappointing summer. The expectation of a late-year surge was one of the reasons I'd focused on Cineplex as my top January stock.

For the full year, Cineplex reported revenues of $1.55 billion, which represented a 5.2% jump from 2016. Net income fell 9.8% to $70.3 million and adjusted EBITDA rose 0.8% to $235.9 million. Total attendance fell 5.6% from 2016 to 70.4 million, while box office revenue per patron and concession revenue per patron rose 3.4% and 6.2%, respectively. Cineplex leadership also announced that it would hike its monthly dividend from $0.135 per share to $0.14 per share, representing a 5% dividend yield.

The previous year saw four movies surpass $1 billion in box office revenue worldwide. *Star Wars: The Last Jedi* leads in worldwide and domestic gross at $1.3 billion and $618 million, respectively, as of

February 25. This year has produced another Disney/Marvel hit as *The Black Panther* has already grossed $700 million globally and $400 million in the North American box office. It may well be the first $1 billion film this year, with several others, including the next *Avengers* installment, *Jurassic World 2*, and another standalone *Star Wars* film as solid candidates to pass the same threshold.

In a recent interview, Cineplex CEO Ellis Jacob emphasized that Cineplex was highly diversified and that investors should look beyond its cinema performance to its media and entertainment segments. Last year Cineplex continued to expand The Rec Room, an eats-and-entertainment emporium expected to generate a significant amount of revenue over the long term.

There are good reasons to believe that movie theatres will see bigger revenues in 2018, but an over-reliance on big box office Disney vehicles is still a concern for the long term. In the short term, Cineplex could see a boost from increased revenue in recent months, and its dividend remains very attractive.

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