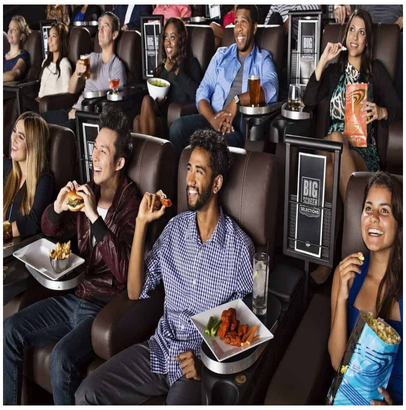

2 Reasons to Keep Your Eye on Cineplex Inc. Ahead of Q1 Results

Description

Cineplex Inc. (TSX:CGX) dropped 0.89% on April 10 and has plunged 16.7% in 2018 so far. The previous year was a disappointing one for movie theatres, with one of the worst summer box offices in three decades. However, there were several reasons to be optimistic heading into this year.

In the fourth quarter of 2017, Cineplex saw revenues jump 10.6% year over year to $426.3 million. Net income increased 23.4% to $28.8 million. November and December releases like *Thor: Ragnarok* and *Star Wars: The Last Jedi* boosted box office attendance and revenues in the final weeks of the year. Holdover business has proven to be a boon in early 2018 as well.

North American box office performance positive out of the gate this year

Another **Walt Disney Co.** vehicle which managed to massively exceed expectations in 2018 was *Black Panther*. The film has scooped up over $650 million in the domestic box office and has sold almost 40% of all tickets since its domestic release in early January.

In a 2017 article, I'd explored the evolving state of the cinema and predicted that movie theatres would grow increasingly reliant on lone blockbusters like *Black Panther* to drive revenues. The first six weeks of 2018 saw movie goers spend most of their money on 2017 holdovers *Star Wars: The Last Jedi*, *Jumanji: Welcome to the Jungle*, and *The Greatest Showman*. Over the next six weeks, the majority has been spent on *Black Panther*.

Since December 2017, two films have surpassed the $1.3 billion mark in the international box office, and both were Disney vehicles. The studio will roll out *Avengers: Infinity War*, *Solo: A Star Wars Story*, and *The Incredibles 2* this spring and summer. So far, both *Avengers* films and all three *Star Wars* installments from Disney have surpassed the $1 billion mark internationally.

Streamers are breaking the bank on content

The rise of home entertainment and streaming services continues to represent a significant challenge for traditional moviegoing. The top streaming companies will be splurging on content once again in 2018. **Netflix, Inc.**, which added an astounding 8.3 million subscribers in Q4 2017, is expected to spend between $7.5 billion and $8 billion on content in 2018.

Amazon.com, Inc. also has its sights set on this industry. In addition to some of the content it has already produced, it plans to develop a *Lord of the Rings* television series that will reportedly cost upwards of $1 billion. Each *Lord of the Rings* film raked in over $300 million in the domestic box office in the previous decade.

Domestic movie theatre attendance hit a 25-year low in 2017. Most troubling has been the embrace of streaming and home entertainment by younger demographics, which cinemas have historically relied on.

Is Cineplex Inc. a buy ahead of Q1 earnings?

Cineplex is expected to release its first-quarter results in early May. Investors should expect a bump from Q1 2017, but it may not help the long-term downtrend for shares of Cineplex. The stock also offers a quarterly dividend of $0.14 per share, thereby representing a 5.4% dividend yield.

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Date
2025/08/20
Date Created
2018/04/11
Author
aocallaghan