Why This Has Been Cineplex Inc.'s Worst-Performing Year

Description

The last 12 months has been **Cineplex Inc.** (TSX:CGX) stock's worst-performing 12 months since it started trading. The company's share price has been cut in half! However, not all of the stock's horrible performance is attributable to the company's performance.

The stock was way overvalued in 2017

Cineplex stock was priced for perfection prior to the decline. In mid-2017, Cineplex was trading at a price-to-cash-flow ratio of ~20.9 at ~$53 per share.

At the time, investors probably thought nothing of it because the stock had been trading at about $50 per share since early 2015. However, by the end of 2017, the stock had declined ~25% to a more reasonable price-to-cash-flow ratio of ~15.4 at ~$37 per share.

The stock currently trades at ~$28 per share at a price-to-cash-flow multiple of ~10.6, which is the cheapest it's been since late 2012.

Cineplex's core box office business continues to decline

It's old news that Cineplex's box office business has been on a decline. In 2017, attendance fell 5.6% to 70.4 million. However, on a positive note, moviegoers have been spending more per patron with a mix of higher movie ticket prices (e.g., premium seating) and higher spending on concessions.

If there are movies that people want to watch, they'll still watch them. For example, in the first quarter, the most watched movie was *Black Panther*, which made up almost a quarter of the viewings.

Cineplex's box office revenue contributed ~46% of its total revenue of ~$1.56 billion in 2017. Since its box office revenue still makes up a big part of Cineplex's top line, the movies available and whether they attract attendance will still affect the stock's performance.

Cineplex has been investing

Cineplex is a transforming company. Management has been aware of the issue of declining attendance for years, which is why it has invested in premium seating and has expanded its food offerings with Outtakes, Poptopia, and YoYo's.

The company has also been diversifying its business with its investments in The Rec Room, Topgolf, and Playdium. In late July, Cineplex announced an exclusive partnership with Topgolf, which "will see the opening of multiple Topgolf venues in markets across [Canada] during the next several years." Topgolf venues will be the destinations for entertainment, socializing, and golf in any season.

The Rec Room has been a growth area for the company. Two locations are scheduled to open in 2019 in St. John's and Winnipeg, respectively. However, The Rec Room is still only a small contribution to the business (4.1% of total revenues in the first quarter).

Investor takeaway

In the last 12 months, Cineplex's share price has been cut in half. The stock was simply too pricey in 2017 and the trend of declining movie attendance didn't help. The company has been investing, and thus far it's showing positive results for The Rec Room.

If the company's investments continue to pay off over the next few years, the stock should be able to return to higher levels. In the meantime, Cineplex pays a monthly dividend, offering a 6% yield at ~$28 per share.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/02
Date Created
2018/05/05
Author
kayng