Are the Struggles at Cineplex Inc. Really a “Blip”?

Description

Cineplex Inc. (TSX:CGX) stock has plunged 23.3% in 2018 as of close on May 7, and its shares are down 46% year over year. The company released its first-quarter results on May 2.

In the first quarter, Cineplex reported total revenues of $390.9 million, which was down 0.9% from Q1 2017. Attendance dropped 9.3% year-over-year and net income plunged 33.7% from the prior year to $15.2 million. Box office revenues per patron and concession revenues per patron were up 2.4% and 6.7%, respectively.

Ellis Jacob, CEO of Cineplex, criticized the “short-sighted” sell-off and called the first quarter a “blip.” “The media keeps saying that the business is in effective decline, and it’s not,” Jacob said. “When we come out of the second quarter, I’d like to have this conversation again, because I’m pretty confident that it’s going to be a heck of a lot better than the second quarter last year.”

Can this retreat really be attributed to a blip? Domestic theatre attendance in North America hit a 25-year low in 2017. In addition, the rise of streaming services represent an existential threat to the traditional cinema business model. Traditional cinema is also growing increasingly reliant on bigger films to drive business.

The rock solid performance of *Black Panther* at the box office was encouraging to begin the year, but ultimately not enough to bring revenues over Q1 2017 levels. The **Walt Disney Co.** (NYSE:DIS) property *Avengers: Infinity War* has also stormed out of the gate after its April 27 release date. As of May 6, the film has raked in over $450 million at the domestic box office and over $1.1 billion worldwide. It is more than likely that the film will carry the momentum to break the $2 billion threshold. This would make it the second Disney property to exceed $2 billion in the past decade, after *Star Wars: The Force Awakens*, which was released in December 2015.

Disney has dominated the box office in recent years. In 2016, all four films that breached the $1 billion mark came from the Disney studio. In 2017, the top two highest grossing films also came from the Disney studios, a trend that has continued in 2018 with both *Black Panther* and *Infinity War*. Disney's acquisition of **Twenty-First Century Fox Inc.** (NASDAQ:FOX) will tighten its grip on the industry.

Cineplex has worked hard to overcome the relative decline of cinema attendance by broadening its entertainment offerings, including its four Rec Room locations and its Playdium arcade facility in Ontario. New segments experienced 8.9% growth from the prior year. Cineplex also moved to hike its annual dividend by 3.6% to $1.74 per share, thereby representing a 5.8% dividend yield.

The decline in theatre attendance and the rise of home entertainment will continue to pose a huge challenge to Cineplex going forward. However, shares have fallen far year-over-year and the company has continued to extract growing value from its patrons. It represents a decent income play at its current price.

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