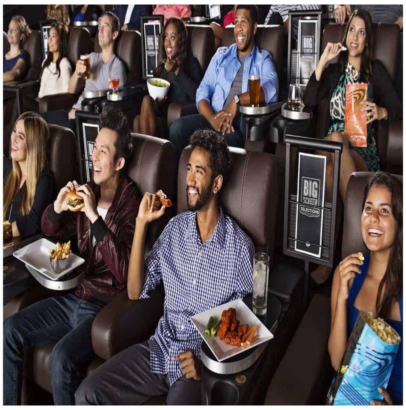

Is Cineplex Inc. (TSX:CGX) Stock a Buy After its Earnings Release?

Description

Cineplex (TSX:CGX) stock has been a conundrum for investors since it began its steep decline in the summer of 2017. Shares have dropped 20.5% year over year as of close on August 17.

Part of the challenge for investors is tangling with the very real threats to the traditional cinema business. Leadership at Cineplex called the slow period in the summer of 2017 a "blip," but declining attendance and the rise of home entertainment and streaming services have presented a serious threat to the long-term viability of the industry.

However, this year things have been looking a little brighter for the cinema. Back in June, I'd recommended that investors should take a second look at Cineplex. This was after the impressive success of **Disney** properties *Black Panther*, *Stars Wars: The Last Jedi*, and *Avengers: Infinity War*, the latter of which broke the vaunted $2 billion box office mark worldwide. Cineplex stock has climbed 11% over the last three months.

Cineplex released its second-quarter results on August 10. Revenue rose 12.4% year over year to $409.1 million, and attendance jumped 5% to 17.3 million customers. Box office and concession revenues per patron were both up 4.4% and 9.3%, respectively, from the prior year. Net income soared an incredible 1670% year over year to $24.4 million, and adjusted EBITDA climbed 78.3% to $67.8 million. The only disappointment for Cineplex was lower-than-expected income generated by its Rec Room establishments.

The company is well aware of the challenges faced by traditional cinema and has sought to aggressively diversify as we look ahead to the next decade. Cineplex plans to have nine Rec Room locations opened by the end of 2019 and two Playdiums. It will also open its first Topgolf location in the near future, which is another entertainment venue that offers games, food, and drinks.

The top-heavy box office revenues were quite striking in the second quarter. *Avengers: Infinity War* took up 24% of box office revenues. *Deadpool 2*, *Incredibles 2*, and *Jurassic World: Fallen Kingdom* rounded out the top four at 11.3%, 9.6%, and 6.8% of box office revenues in that order. The slate for the second half of the year is not quite as promising on paper, but the industry will be counting on some surprise hits in the latter months of the year.

The board of directors last announced a monthly dividend of $0.145 per share, representing an attractive 5.3% dividend yield. This yield has been enticing for investors since Cineplex stock began its precipitous fall. Cineplex is shaping up for a decent 2018, with revenues up 5.5% in the first six months, and net income up 62.7% year to date. Its dividend and a nice year for the box office so far make Cineplex a solid pick-up, as investors look ahead to the fall. However, in the long term the cinema will still contend with existential threats that will limit the stock's ability to climb back to all-time highs.

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