Is Cineplex Inc. (TSX:CGX) Stock on a Super Sale?

Description

Cineplex (TSX:CGX) generates most of its revenues from its box office and related sales, which are affected by attendance levels. Unfortunately, the number of moviegoers has been on a general decline with occasional spikes in quarters in which there are attractive movies.

In the first nine months of the year, Cineplex's box office revenues were $542.1 million, or 45.7% of total revenues, while its concession revenues were $329.9 million or 27.8% of total revenues. So, about 73.5% of revenues relied on people to go to the movies.

Just how bad were Cineplex's third-quarter results to trigger the stock to fall nearly 21% on Wednesday?

Image source: Getty Images.

What was alarming about Cineplex's Q3 results?

In Q3, Cineplex saw modest growth of 4.4% and 2.6%, respectively, in its total revenues and theatre attendance. What stood out like a sore thumb were declines of -40.7%, -9.3%, and -40.7%, respectively, in net income, adjusted EBITDA, and diluted earnings per share compared to the same period in 2017. Not quite as alarming, albeit still not pleasing was adjusted free cash flow decline of -3.7% and a decline of -3.5% on a per-share basis.

Management explained that “adjusted EBITDA declined $5.5 million to $53.4 million mainly due to an increase in the share-based compensation cost as compared to the prior year ($8.4 million) due to the decline in the share price in 2017 compared to the increase in the share price in 2018.”

The decline in net income and earnings per share had partly to do with increased costs of about 8%. Key items include film cost increasing by 8.3% to $90.2 million, non-cash depreciation and amortization increasing by 9.8% to $33.6 million, and other costs climbing 6.9% to $218.9 million.

The first nine months

Reviewing Cineplex’s nine-month results show a more normalized and healthier picture of the business. Although theatre attendance declined marginally, moviegoers have been spending more on their movie tickets and theatre food and drinks.

Here are some key metrics compared to the same period in 2017:

	Q1-Q3 2017	Q1-Q3 2018	Change
Total revenues	$1,128.8 million	$1,186.6 million	5.1%
Theatre attendance	52,843	52,280	-1.1%
Net income	$41.6 million	$49.8 million	19.8%
Box office revenues per patron	$10.04	$10.37	3.3%
Concession revenues per patron	$5.90	$6.31	6.9%
Adjusted EBITDA	$156.3 million	$174.7 million	11.8%
Adjusted EBITDA margin	13.8%	14.7%	0.9%
Adjusted free cash flow per share	$1.563	$1.874	19.9%
Diluted earnings per share	$0.66	$0.79	19.7%

Is Cineplex’s dividend safe?

Cineplex’s monthly dividend per share is almost 3.6% higher than it was a year ago. Its annualized payout is $1.74 per share, which equates to a juicy yield of nearly 6.1% at the market close price of $28.56 per share.

Its adjusted free cash flow payout ratio in the first nine months was 63.5%, compared to 75.3% in the same period of 2017. So, Cineplex’s dividend is safer than it was before.

Investor takeaway

The increased overall costs in Q3 is a concern. Will it be a trend and continue into the future? The change in costs is something that investors should keep an eye on.

Other than that, investors should also keep tabs on the changes in theatre attendance, box office revenues per patron, and concession revenues per patron to ensure Cineplex’s core business remains healthy.

Cineplex’s +6% yield seems safe. At $28.56, it trades at about 8.6 times estimated 2018 cash flow, which is about a 20% discount from its normal levels. The analyst consensus from **Thomson Reuters** has a 12-month target of $36.30 per share on the stock, representing a discount of about 21% or near-term upside potential of about 27%.

In conclusion, Cineplex is not quite on a super sale, but it's trading at a moderate discount.

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