Cineplex Inc (TSX:CGX) New Opportunity or Time to Dump?

Description

Earlier this month, investors were given yet another reality check on the future prospects of **Cineplex Inc.** (TSX:CGX). Since announcing its most recent quarterly results, the stock has tanked, dropping over 25% in the past month.

Just how bad were those results, and should investors be concerned? Here's a quick recap.

Quarterly results: Bad, but not that bad?

Net income realized a 40% drop over the same period last year to $10.2 million, or down to $0.16 per share from $0.27 per share in the same quarter last year. Adjusted EBITDA saw a 9.3% decrease to $53.4 million, and adjusted EBITDA margin realized a 2.1% drop to 13.8% in the quarter.

Those figures may sound dismal, but before you begin selling your shares, there were several positive points to take note of from the earnings report.

First, there's total revenue, which saw a 4.4% increase over the same period last year to $386.7 million. That increase was fueled partially by a healthy bump in both theatre attendance and concession sales per patron in the quarter, which came in at 2.6% and 4.0% better than the same period last year, respectively.

The top releases that helped push attendance higher in the quarter included *Mission: Impossible Fallout, Ant-Man and The Wasp*, and *Jurassic World: Fallen Kingdom.*

Critics of Cineplex often point to the over-reliance on the theatre business without noticing the slow but notable rise of Cineplex' Rec Room offering. In the most recent quarter, the Rec Room pulled in $8.138 million in revenue, which, while still a small piece of the overall revenue picture, represents an incredible 90.5% gain over the same quarter last year, and an even more impressive 180.5% gain over the prior year on an annual basis.

Finally, there's the cumulative outlook for the year so far, which shows net income of $49.8 million to-date that surpasses the amount reported in the same period last year by 19.8%.

Is it time to forget the movie-and-popcorn model — or time to look elsewhere?

Critics of Cineplex often point to the over-reliance on the movie-and-popcorn model as a major point of concern. Being too reliant on Hollywood is a key point here, as there have been times in the past two years where the perceived blockbuster season that runs from May through September has fallen short of expectations.

That said, the blockbuster season myth is something I've debunked before, which is nothing more than the result of Hollywood adopting a more staggered approach to releases throughout the year rather than in a concentrated chunk in the middle.

Part of this stems from the fact that we have a larger number of franchised sequels coming to market, with the influx of superhero movies and a full release schedule of *Star Wars* movies to run its course over the next few years serving as prime examples of this.

In short, Cineplex's steady increase in ventures such as its Digital Media and Rec Room initiatives will provide the diversification necessary to silence critics over the long term, but in the more immediate time frame investors should be focused on the opportunity to purchase a great long-term investment at a heavily discounted price.

If for no other reason than Cineplex's monthly dividend, which currently provides an incredible 6.60% yield, this may be the determining factor in investing in what is a great long-term income and growth play.

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dafxentiou