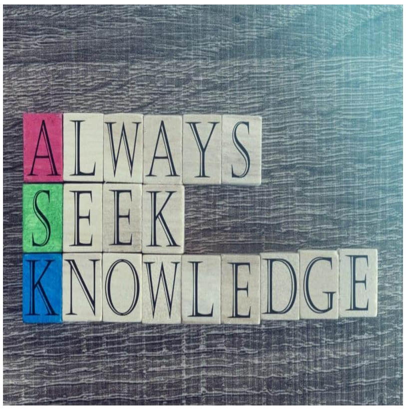

Will Cineplex Inc. (TSX:CGX) Stock Rebound in 2019?

Description

Cineplex (TSX:CGX) stock has dropped 30.4% month-over-month as of close on December 5. This dip has pushed the stock down 33% in 2018 so far, which is discouraging as it had staged an impressive rally from the late spring.

Back in May Cineplex released earnings that were down marginally from the prior year. Ellis Jacob, CEO of Cineplex, dismissed the poor first quarter results as a "blip" and called the sell-off "short-sighted." Jacob was vindicated to some degree over the course of the summer. The North American box office managed to bounce back from one of the worst summers in over two decades last year. However, the third-quarter report released by Cineplex in early November suggests that a return to form for Hollywood may not be enough to keep the stock afloat.

Net income plunged 40.7% year-over-year to $10.2 million in the third quarter. Adjusted EBITDA fell 9.3% to $53.4 million. Theatre attendance did rise 2.6% to 17.2 million, but this number is still down 1.1% in the first nine months compared to the same period in 2017. Cineplex was hit hard as media revenue dropped 16% to $33.5 million, largely due to a decline in cinema advertising. Ellis Jacob attributed this to the "cynical nature of the business." Jacob is expecting a bounce back in the fourth quarter as advertisers tend to splurge at the end of the year.

Cineplex last posted an RSI of 23. Shares have been in oversold territory since mid-November. Value investors may be emboldened to add Cineplex at this price. Cineplex last paid a monthly cash dividend of $0.145 per share, representing an attractive 6.8% yield. Cineplex stock looks like a reasonable buy in early December, but its performance since mid-2017 should give investors pause. Is there reason to believe it can fend off volatility in 2019?

There are several promising releases that should keep traffic heavy at cinemas next year. *Avengers 4* is set for a May 2019 release, hot off the over $2 billion *Avengers: Infinity War* raked in at the box office this year. *Toy Story 4, The Lion King* remake, *Frozen 2*, and *Star Wars: Episode IX* are all fantastic candidates to surpass the $1 billion threshold in 2019. Unsurprisingly, these are all **Disney** properties.

There are long-term concerns for Cineplex and the traditional movie business at large. The North

American box office put in a very positive year in 2018, but theatre attendance is still down. Fewer and fewer people are going to the movies, and the rise of home entertainment is an existential threat to the industry.

More streaming services are set to launch next year, some of which will hope to challenge the **Netflix** giant. Tech giants like **Apple**, **Facebook**, and **Amazon** have entered the fray, committing billions to produce original content. Disney is also set to launch its own streaming service in 2019.

Cineplex is a tempting stock for income investors at its current value, and it boasts an attractive dividend in the near term. Those who jump in now will be betting on a bump up in Q4, but Cineplex will continue to face many of the same challenges in 2019. Cineplex is simply too volatile to rely on as a long-term income provider heading into the new year.

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