Cineplex Inc. (TSX:CGX): What Should Investors Expect Post-Q4?

Description

Cineplex (TSX:CGX) is often met with mixed emotions among investors and analysts alike. Everyone seems to acknowledge that the company offers a handsome dividend, and that it enjoys an advantage over the smaller players in the market, but exactly how long that advantage, or, more specifically, the entire movie-and-popcorn business will remain active is something of a debate, particularly during earnings season.

Seeing as Cineplex recently announced results for the fourth quarter of 2018, it makes sense to take a gander at what the company can offer investors.

Q4 results: What do they really mean?

Cineplex's earning reports have become highly volatile in recent years, especially as the number of options and devices to stream movies seems to be increasing by the month, leading to an overall decline in attendance across Cineplex's theatres.

Adding to this is the fact that Cineplex's business is extremely reliant on the quality and amount of content being released by Hollywood. Other adjustments to that traditional business model have led to skewed results as well. By way of example, in recent years the traditional blockbuster, May through September period has been extended year-round to account for the influx of multi-part and trendy movies that people want to watch. Right now, that trend is focused on the plethora of superhero movies that are stringing together a single massive timeline over dozens of movies that are being released with increasing frequency.

In terms of results, Cineplex earned $27.2 million, 0.45 per share, in the most recent quarter, falling short of the $28.8 million, or $0.45 per share, reported in the same quarter as well as the $0.46 per share that was being forecasted by analysts.

Revenue for the quarter came in relatively flat, registering growth of just $1.9 million over the same period last year, coming in at $428.2 million.

Overall theatre attendance, which came in 3.2% lower than the prior year was largely attributed to drop in earnings, as was the fact that the prior period's movie releases included blockbusters from the Star Wars universe as well as the highly successful movie, *Jumanji: Welcome to the Jungle*.

What should you do?

While some investors may view those results as weak or, more specifically, reflecting the long-held point made by critics that the traditional movie-and-popcorn business is a dying breed, there are some positive aspects to reflect on, both from Cineplex's results as well as from ongoing initiatives.

First, Cineplex is still overly reliant on box office revenues. This trend is changing through the continued roll-out of more Rec Rooms and Playdium locations, but it's something that will take time. Looking ahead to the few quarters, however, investors can look forward to what could be some of the biggest releases in years — specifically, *Avengers: Endgame*, *Aladdin, Rocketman, Toy Story 4*, *Frozen 2*, and the final episode from the last Star Wars Trilogy are all highly anticipated follow-up movies rumoured to shatter box office records once released.

I'm not even touching on the anticipated boost from online concession ordering, the uber eats deal signed last year that allowed for concession delivery, and the continued success and expansion of the Rec Room across the country. In fact, Cineplex has four Rec Room sites under construction that are set to open later this year.

Finally, there's what could be the most attractive aspect of Cineplex: the dividend. The company currently offers a monthly distribution that is rewarding shareholders with an eye-opening 6.41% yield at the moment.

Everything else I mentioned above makes a compelling case for long-term investors to consider Cineplex; the generous dividend is the icing on the cake.

Buy it, forget about it, and enjoy the upcoming movie releases.

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