Alert: Cineplex Inc. (TSX:CGX) Is a Buy-Low Target in April

Description

Cineplex (TSX:CGX) has been a frustrating stock to own over the past two years. Before 2018, concluded I'd discussed whether the stock was worth betting on ahead of the New Year. Cinemas had raked in record revenues in 2018, but the momentum at Cineplex came to a screeching halt after the release of its 2018 third-quarter report.

The stock suffered another sharp drop after the release of its fourth-quarter and full-year results on February 15. Total revenues rose a paltry 0.4% year-over-year in Q4 2018, and theatre attendance dropped 3.2% to 17 million. For the full year, revenues climbed 3.8% to $1.61 billion, while attendance still fell 1.6% to 69.3 million.

Cineplex CEO Ellis Jacob has expressed confidence in Cineplex overcoming its many challenges going forward. He was quick to call out the "blip" that was the disappointing 2017 summer box office and questioned the overreaction to the Q3 2018 report. Cineplex has worked hard to diversify its business, but still relies heavily on box office performance.

Shares of Cineplex have dropped 5% month-over-month as of close on April 2. The stock is down 3.2% in 2019 so far. The North American box office had a rough start to 2019, as revenue for the first eight weeks of the year hit an eight-year low. Back in February I'd pointed out why this was reason for concern.

There was some hope that *Captain Marvel* would provide a much-needed boost in the month of March. The film has exceeded $355 million in its domestic gross and will surpass the $1 billion mark worldwide, but this will not be enough to bolster a very weak Q1 2019. According to box office mojo, the quarter-to-date North American box office is down 21% from the prior year.

Cineplex is expected to release its first-quarter results in early May. Investors should expect a negative report, but I believe the stock is a solid buy-low candidate in the early spring.

The 2019 release schedule should still inspire confidence for the cinema industry. *Avengers: Endgame*, the sequel to *Avengers: Infinity War*, saw its tickets go on pre-sale this week. It took six hours for the film to break the previous single-day sales record on the movie ticket site Fandango, which was held by *Stars Wars: The Force Awakens*. Pre-sale response on other websites has been equally impressive.

Avengers: Infinity War pulled in over $2 billion worldwide by the end of its run. The hype surrounding *Avengers: Endgame* suggests that we are be about to witness some history this year. Expect the film to easily break the $2 billion worldwide mark, as well as the $700 million domestic mark. This, in my view, is a conservative outlook.

This is not the only film that will give a boost to cinema revenues. Other future blockbusters include *Toy Story 4*, *Aladdin*, *The Lion King*, and *Frozen 2*. The final installment in the third *Star Wars* trilogy will be released in December.

Box office hype aside, Cineplex stock is trading at the low end of its 52-week range. The stock had an RSI of 46 as of close on April 2, which puts it in neutral territory. Cineplex stock offers a monthly dividend of $0.145 per share, which represents a highly attractive 7% yield. Income and value investors should be targeting Cineplex today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/09/20
Date Created
2019/04/03
Author
aocallaghan