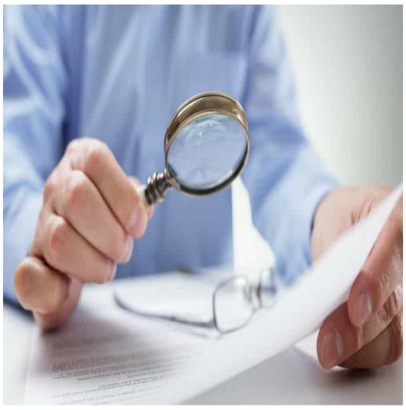

Why I'm Buying Cineplex (TSX:CGX) After Earnings

Description

The North American box office had a brutal start to 2019. The lack of a big-time release saw revenue in the first eight weeks of the year hit an eight-year low. Revenue and ticket sales in January and February were at the lowest since 2011.

Cineplex (TSX:CGX) stock plunged sharply in mid-February after it released its 2018 full-year results. Theatre attendance dropped 3.2% year over year and revenues only increased 0.4%. The lukewarm earnings report combined with bearish conditions in the broader industry led to negative sentiment for the stock.

In early April, I'd suggested that Cineplex was a buy-low target. Shares enjoyed a run-up in late April, and at the time of the linked article the stock boasted a 7% yield.

Cineplex released its first-quarter results for 2019 on May 9. Total revenues fell 6.6% year over year to $364.9 million and theatre attendance plunged 15.6% to 15 million. Cineplex reported a net loss of $7.4 million, or $0.12 per share.

Company leadership was quick to point out the soft conditions in the broader industry, while also citing the impressive performance of *Black Panther* in the first quarter of 2018. Cineplex anticipates strong results as the movie slate has dramatically improved for the remainder of the year. This was a factor I had discussed in April. It is also a reason for investors to consider buying into a post-earnings dip.

Avengers: Endgame has pulled in over $650 million in the domestic box office and a stunning $2.3 billion worldwide in less than three weeks since its opening. Barring a major slowdown, it will become the highest-grossing film in history. *Avatar* currently holds the top spot worldwide at $2.78 billion.

Endgame is not the only reason to be excited for Cineplex in the coming quarters. *Detective Pikachu*, which opens this weekend, is expected to be a significant commercial success. Other big releases include the live-action *Aladdin* film, *Spider-Man: Far From Home*, *The Lion King* live-action film, *Toy Story 4*, *Frozen 2*, and *Star Wars: The Rise of Skywalker* to finish up the year. Each of these releases has a great shot at passing the $1 billion mark worldwide.

As of this writing, Cineplex stock had just come off a 4.62% gain on May 9. A porous quarter in terms of revenue and attendance may chase down stock value, but investors should be ready to jump on the value. Shares were approaching technically overbought territory with an RSI of 63 as of close on May 9.

The best news is for income investors. Cineplex raised its annual dividend by 3.4% to $1.80 per share. The company pays its dividend monthly, so shareholders will be treated to a boon of $0.15 per share across the 12-month period. As of this writing, this represents an attractive 6.9% yield.

There is nowhere but up for Cineplex after this rough first quarter, at least as far as its earnings are concerned. Cineplex should benefit from a positive trajectory in the broader industry, and its tasty dividend is hard to ignore. I like Cineplex stock in May.

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