



Cineplex Inc. (TSX:CGX): Does the Awesome Q2 Movie Lineup Make This 7% Yielder a Buy?

Description

Over the last few years, **Cineplex** ([TSX:CGX](#)) has starred in a horror movie of its own with shares crashing violently, hurting many income investors in the process. Had these investors been active readers of The Motley Fool, they would have saved themselves from a world of pain, as I wrote [several pieces](#) urging investors to sell shares while the stock was near all-time highs.

Indeed, Foolish investors were warned well ahead of time. But that was a 50% drop ago. Today, Cineplex shares have tempered expectations, as the box office segment has continued to tumble into the abyss thanks in part to the continued rise of video streamers, who are throwing tonnes of dry powder on content creation.

While there have been some pretty solid theatrical releases that have been making noise at the box office of late (like *Avengers: Endgame* and *John Wick Chapter 3: Parabellum*) after a relatively quiet start to the year, don't think for a minute that Cineplex has become great again. As the video streaming wars mount, the bleeding at the box office still appears to be the long-term trend, despite the recent nearer-term windfalls that'll be provided by this year's hits.

Sure, the ground-shaking success of *Avengers: Endgame* shows that people are still willing to go out to see a movie, but unless films are blessed with some of that **Walt Disney** magic, projecting the success of films will likely continue to be a crap-shoot. The box office is a ridiculously volatile business, and Cineplex's management is doing everything in its power to diversify away from its box office segment, which still accounts for over 40% of total revenues.

While the average person would still be more than willing to pay up for a VIP or Ultra AVX ticket to watch their favourite multi-million-dollar franchise hit in theatres, I believe that the market for lesser-known films has all but evaporated.

Remember back in the day when you went to the theatre without a movie in mind and selected one while in the queue? I think those days are over.

What about the casual movie goers? The weekly movie date? The folks that went to the movies by default when there was nothing else to do? The movie buffs who had to see it first? These folks are starting to gravitate towards the more wallet-friendly video-streaming options. And there's no shortage of choices with most people's watchlists full of films with not enough time to watch them. So, it's not a mystery as to why so few films can become hits at the box office these days, and that's why the longer-term trend at the box office is still down.

Over the near term, however, I see a big windfall from a strong second quarter of films that may cause a slight bounce at the box office. Don't be fooled though, as this will likely just be an outlier; the box office pain will continue until the next *Star Wars* movie can provide some relief.

Although the amusements segment will likely grow at a high double-digit rate per year, I think it'll take at least five years before the segment can become worth a quarter of total revenues. The box office and food service businesses will continue to call the shots in the meantime, so I wouldn't give too much merit to Cineplex's diversification efforts at this juncture. They will serve to offset pressures at the box office but don't expect Cineplex to be a diversified entertainment company first and a movie theatre company second any time soon.

The [dividend](#), while stretched, is safe. Just because Cineplex can support it doesn't mean it should, however. The company would be better off reducing its dividend, so it could use the savings to accelerate growth in its amusements segment. The segment is capable of growing at a +20% rate on an annualized basis; such growth, while impressive on the surface, will only allow amusements to become marginally more influential to overall revenues each year when it needs to be much more influential if shares are to command a high P/E.

For that reason, I wouldn't touch Cineplex, although traders may want to buy shares for a near-term pop.

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