

## Cineworld (CINE)

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Cinema chain (founded 1995) listed on the FTSE Small Cap in May 2007.

Basics: Market FTSE Small Cap Market Capitalisation £175.38 Million EPS 15.7 pence 28th June 2007 Dividend Payout 3 Pence per Share (2.4%) Sites: 73 Cinema's, 758 Screens. Summary Cinema chain (founded 1995) listed on the FTSE Small Cap in May this year, raising 120 million pounds. Due to this short period since initial listing, the financials on them are limited, in the period ending 28th June 2007, pre-tax profits were at £5.1 million pounds, giving an earnings per share figure of 15.70 pence and paying a dividend of 3 pence per share (which is 2.4% yield at the closing market price on the 25th January 2008 of 123.75 pence). It should however be noted that the dividend payment was set when the shares were trading at a much higher price. Cineworld is the only publically listed Cinema chain in the United Kingdom and the second largest. The share price took a tumble on the run up to Christmas when it was announced that Carlton Screen Advertising wanted to renegotiate the terms of their screen advertising contract. [Having trouble getting hold of precise details of why they wanted to re-negotiate or how much of Cineworld's profits come from this advertising deal, based on Cineworld's website between 2000 and 2006 advertising accounted for 7% of revenue (industry average)]. On the 19th of January 2008 it was announced that CSA will be paying the full contract amount but on a month by month basis instead of six monthly in advance. This however is only certain while negotiations are in place, therefore there could be significant changes when the talks complete. The share price recovered significantly in early January when it was announced that due to the success of some of the big franchises (such as Harry Potter and Pirates of The Caribbean), Cineworld expected its full year profits to be at the top end of predictions. It was also announced that last year admissions were up 4.8%. Why buy now · The price hasn't fully recovered from its downturn after the CSA problems; this is likely to be partly to do with current worries about consumer spending power being reduced in light of the credit crunch. · The management seems quite shareholder orientated, as mentioned above, it is already paying a modest dividend, many managers would not do this so early on, retaining earnings is an easy source of apparent growth in the next few years accounts (just on the basis of compound interest). · Real D o On October 9th 2007 Cineworld announced that they were installing Real D technology (which allows the screening of 3D films) in 20 of their 72 Cinemas. o The first film to be screened was Beowulf, the general consensus seems to be average film made quite impressive by the 3D technology (based on reading through rotten tomatoes reviews) o DreamWorks Animation SKG has announced it intends to release all of its films in 3D by 2009. o George Lucas has announced he intends to release a 3D version of Star Wars (although no timescale for this and I wonder how much is left in the star wars franchise) o The technology doesn't use the normal red green goggles which tend to cause eye strain when used for prolonged periods. · Big franchises coming up next year (Harry Potter, Star Trek, The Mummy, Indiana Jones) which people are likely to see whether they can really afford it or not. · Most recent trading statement (18th January 2008) shows a market share increased to 23.7% (a 0.2% increase) with admissions growth of 4.8%. · They seem to be expanding at a sensible rate, opening between 1 and 2 new screens at a time and allowing each one to run in before moving onto the next one. Why not to buy now · Consumer spending power is almost certainly going down, credit cards will become more and more difficult to obtain and mortgage payments are going to be eating more heavily than normal into people's disposable income. o I personally think the cinema will do well, with people going to the cinema every now and again because it seems like a small, affordable luxury, on the other hand I'm in an odd situation credit wise, being a student people just want to give me credit and so my view may be warped. o I also think most of the people really affected by the reduced credit are already bad enough at managing their finances that it will take their spending a fair time to catch up with reality. o Cineworld is strict about only building cinemas where there are already entertainment facilities, so generally around restaurants and so-on, I think people may choose the cinema as the lesser of two evils, £5 - £6 for a ticket is much more affordable than £10 - £15 for a meal. · We don't have first year financials for them (will be released for year ended 27th December 2007 on 18th March 2008) and I'm finding accurate analysis of income breakdown hard to get. Timescale · Long term investment, if we're taking advantage of market instability now (and buying at a discount) then we have to wait for the market to stabilise before the price will catch up with the business's true value.