

Taking Stock: Write movie-theater chain out of your script

by Malcolm_Berko

Dear Mr. Berko: I was looking at the stock pages recently and found Regal Entertainment Group selling at \$20.60 and paying a nice \$1.20 dividend, which is nearly 6 percent. I just renewed a \$7,000 certificate of deposit and got 3.75 percent from my bank. I have a \$3,500 CD coming due next month and thought I'd buy 150 shares of Regal because the yield is 6 percent and because during hard economic times more people attend movies.

W.P.

Fort Walton Beach, Fla.

Dear W.P.: Regal Entertainment Group (RGC-\$20.60) organized as a public company in 2002 now owns about 7,000 movie screens in 560 theaters in 39 states and the District of Columbia. Management develops, acquires and operates large, multiscreen theaters under the United Artists, Regal Cinema and Edwards brand names.

After RGC came public in 2002 its stock climbed to \$25 a share. Since then RGC has been an uninspiring company with uninspiring management, uninspiring earnings, uninspiring potential and certainly, since inception, an uninspiring stock performance for its disappointed stockholders. RGC's future is so uninspiring that last year five of the company's officers sold over 900,000 shares of their stock at an average price of \$21 a share. And when top management sells their shares, that's not considered a vote of confidence. Therefore, I won't advise you to own the stock either, the \$1.20 dividend notwithstanding.

Meanwhile, box-office receipts for the last quarter of 2007 were down about 12 percent from last year. So management wisely increased ticket prices by 50 cents and wisely raised the costs of popcorn, soft drinks, candies, etc. That's another reason I wouldn't own the stock. We're in a recession and spending \$8.50 for an admission ticket, \$6 for popcorn and \$3 for a Pepsi might be a little difficult for a lot of us.

RGC also carries a substantial debt load on its balance sheet. So if the theater business begins to lean toward hard times (which is certainly possible considering (1) the low number of quality films produced, (2) a recession that is significantly pinching the consumer's disposable income plus (3) strong competition from video gaming and Internet alternatives.) RGC may find it difficult to service its huge debt burden. That's another reason I won't recommend RGC shares.

RGC's 6 percent dividend yield is attractive. But because of its unusual high level of fixed costs, management may not be able to maintain its dividend and continue to invest in new theater facilities;

especially in a tough market that many folks believe we will have this year. That's another reason I wouldn't own the stock.

Finally, management tells me that its locations "have become much more reliant on theater advertising prior to the feature film to offset costs." All that horrible advertising patrons have to watch prior to the feature film contributes about 7 percent to gross revenues. Today at most RGC theaters patrons will watch 25 to 30 frustrating minutes of mind-numbing solicitations. But RGC wants to grow its advertising revenues to 10 percent of gross, which means increasing patrons' view time to 40 minutes. So when RGC advertises that a feature begins at 7, it really doesn't begin till 7:40. That's 40 minutes of tommyrot from chiropractors, podiatrists, insurance agencies, pool and aluminum siding companies, auto body repair, optometrists, appliance sales, etc., pushing their products. Patrons are becoming increasingly annoyed with such noxious advertisements and some are beginning to stay away. Another reason not to own RGC shares.

The government won't admit that the U.S. is in a recession but many consumers are hurting badly. Consumers have less disposable income and can't afford 60 bucks to take a spouse and two kids to RGC theater. So their alternative is Blockbuster or Netflix and for a few easy dollars they can rent the movie of their choice, drink Coke from a can and munch on fresh homemade popcorn.

RGC doesn't pour my coffee, fry my bacon, butter my bagel or scramble my eggs. During the last five years, the stock hasn't moved past its 2002 high price of \$25 and I can't think of a single reason why it should do so in the next five years. I can recommend that you go to as many RGC movies as you wish but I also recommend that you keep stay away from the stock.

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