Shorts pile into action packed movie stocks

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Falling audience figures and online competition make movie theater operators favorite short targets

- All four of the largest North American movie theater shares have high short interest
- Regal Entertainment is the most shorted with 15.6% of its shares out on loan
- Despite recent woes, short sellers are not attacking IMAX

Movie theater stocks are some of the least rewarding assets to own right now. An increasing number of short sellers are vying to enter this horror show for long investors – and we may be in for Oscar-worthy drama before the final credits.

In recent years, digital streaming service providers and the high cost of tickets have cannibalized the market for movie theaters. To make matters worse, audiences are increasingly gravitating towards a narrow range of titles, and the industry's fortunes have depended upon high-cost "blockbusters".

Although the blockbuster strategy worked for a few years, tanking franchises are swelling the ranks of skeptics. The industry's ability to keep drawing audiences – and its wider relevance in a highly competitive landscape – are now under question.

Short sellers circle like Jaws

Short sellers materially increased their positions in all four major North American movie theater operators over the last few weeks. These four shares have fallen by an average of 15% since the start of the year, and the sector now has an average of 8% of shares on loan – the highest in several years.

Regal Entertainment is the biggest target for short sellers: it currently has more than 15% of its shares on loan. Interestingly, until now, Regal has performed better than its peers, but short sellers are doubting this resilience. The demand to borrow Regal's shares surged by more than 50% in the last three months.

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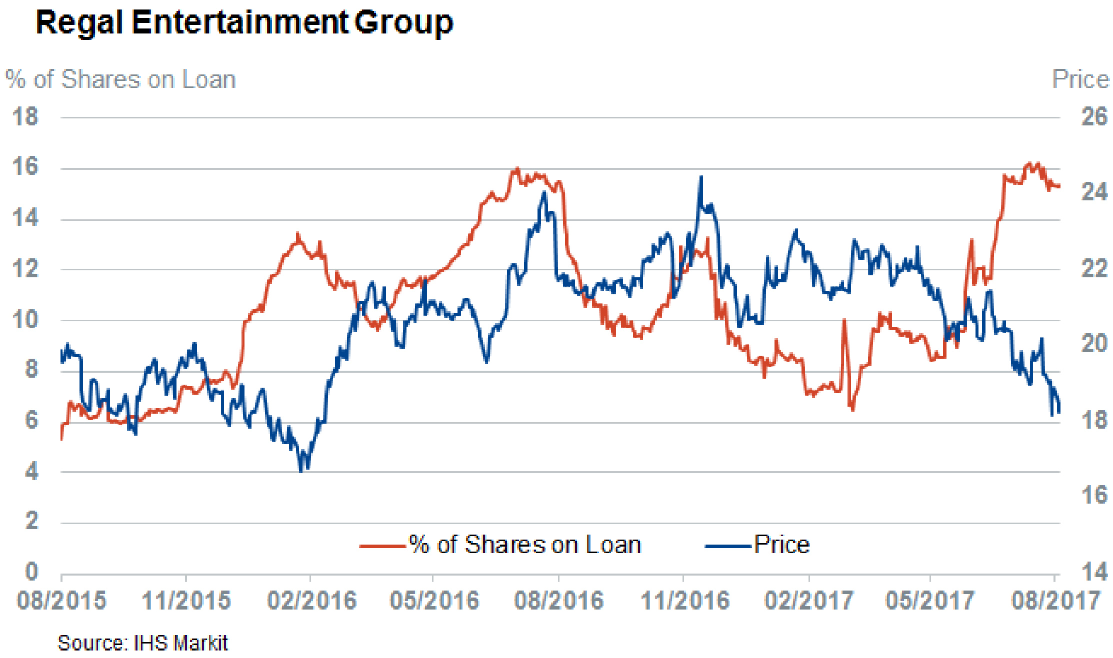
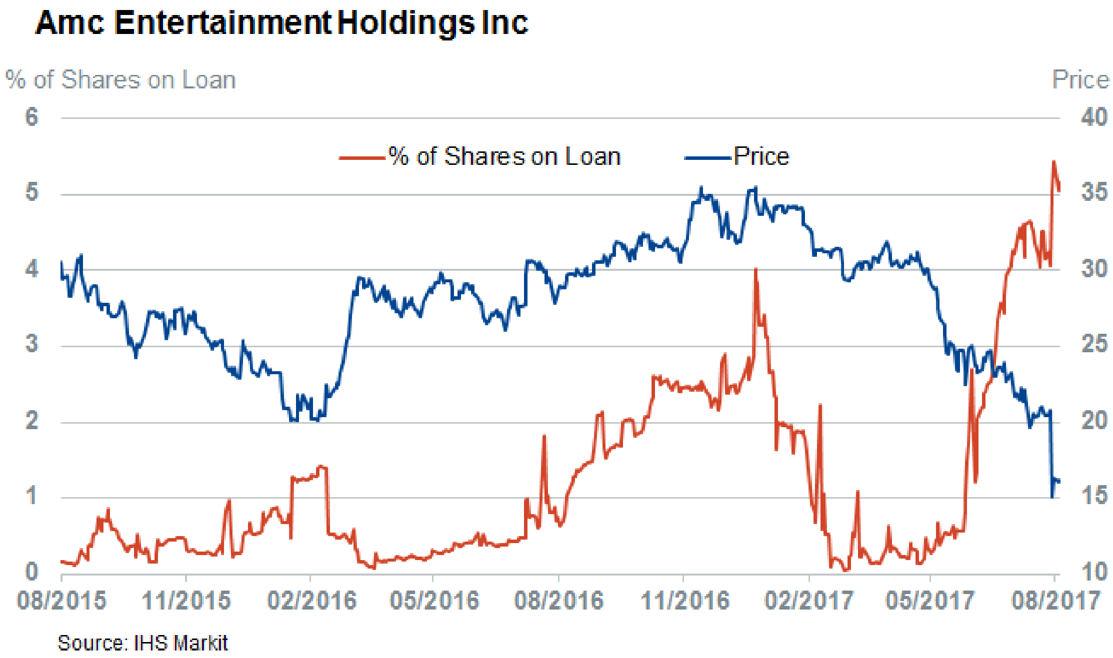


Since the end of May, short interest for AMC Theaters increased more than 15 times. Short sellers were handsomely rewarded when AMC pre-announced disappointing earnings last week, and on the heels of this news, the company's shares lost more than 25% of their value.



AMC technically has 5.6% of its shares on loan, but this figure hides the true demand to short the company. The majority of AMC shares are held by majority shareholder Dalian Wanda Group, which means that the portion of its free float being shorted is nearly three times higher. With this in mind, AMC is the runner up for the Most Shorted Theater Stock Award.

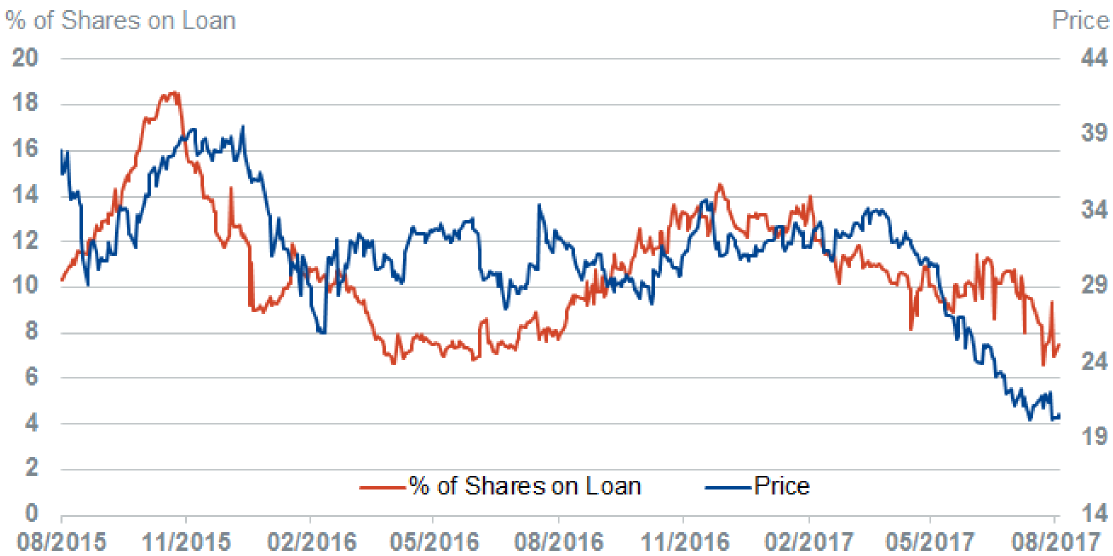
The other two players in the sector, Cinemark and Cineplex, have also attracted more than their fair share of short interest. Cinemark has 6.7% of shares on loan and Cineplex has 4.2% of shares on loan.

With the bigger picture in mind, the shorting activity of these four firms underscores the structural challenges faced by the entire sector.

IMAX not targeted by short sellers

The one industry player that hasn't experienced an increase in shorting activity is IMAX. Granted, IMAX has had plenty of operational woes, which bumped off more than a third of its share price in recent months.

Imax Corp



Source: IHS Markit

Despite its share price plunge, IMAX has not fallen prey to a Zombie Apocalypse by short sellers. The demand to borrow its shares has actually decreased to the lowest level in more than three years.

While IMAX's short interest is technically elevated (7.5% of shares are currently out on loan), this figure is notably lower than that of Regal and AMC. Indeed, the market may be betting on an ever-progressive demand for the unique IMAX entertainment experience.

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