Should Investors Buy Cineplex Inc.?

Description

I look for a company that can evolve with the times, that stays relevant and continues to earn revenue despite changes. Oftentimes, some companies can find it very difficult to pivot, which is why young companies are able to take them over.

Kodak, anyone?

Cineplex Inc. (TSX:CGX) could have been one taken over by a younger company. With the advent of streaming companies that create their own content and studios doing direct-to-video releases, Cineplex could have dug in and argued that the new firms were not a threat. Fortunately, Cineplex is diversifying, so it can become an entertainment company and not just a movie theatre company.

That's not to suggest that its movie theatre business is doing poorly. In Q3 2015, Cineplex saw a 7.6% increase in audience members to 19.41 million. This resulted in an increase in box office revenues by 6.1% and 14.5% in its food service revenue.

On the surface, that sounds really great; however, when you listen to management, it is easy to be reminded of how reliant movie theatres are on Hollywood's success. Management said that the reason it was able to increase audience sizes was because the movies were high quality; so long as the content remains high quality, Cineplex should continue to see strong revenue from its box office.

With *Star Wars* having been released during the fourth quarter and generating $1 billion in 12 days, I expect that Cineplex will have an even stronger Q4 2015 in its box office and food services revenues.

However, what excites me most about Cineplex is its diversification.

One initiative is the Rec Room project. These are huge, multi-purpose locations that are not dependent on movies; instead, the Rex Room is meant to be a destination for the entire family. The kids can be entertained by games and the parents can relax and enjoy some food, and there is no deadline for when they have to leave.

With a movie, revenue can only be generated for the duration; at the Rec Room, revenue can be generated for as long as they decide to stay. Cineplex intends to open 10-15 of these over the next few years.

Another initiative is a big push into the eSports business, where people pay to watch competitive video games. While it might seem sort of odd, in 2014 there were 27 million people watching the *League of Legends* championship.

Cineplex recently acquired 80% of WorldGaming, which is one of the top eSports businesses around. The strategy here is simple: Cineplex has a lot of theatres. People can come in to watch the games, while also buying popcorn, soda, and candy. Rather than showing a bad flick, it can show video games. Cineplex also plans to launch its own eSports league, which will allow it to increase its advertising revenue via sponsors.

Because the company continues to have strong quarters and because it is diversifying in to other fields, the company is able to pay a lucrative yield of 3.27%. This comes out to a monthly dividend of $0.13. This allows investors to redeploy that money into more shares faster. All told, I believe Cineplex is a smart buy for any investor who believes entertainment is going to grow.

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1. Investing

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1. Editor's Choice

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1. TSX:CGX (Cineplex Inc.)

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