



Cineplex Inc. Is Ready to Show You the Money

Description

Founded in 1999 as a small movie-theatre chain, **Cineplex Inc.** ([TSX:CGX](#)) has quietly rolled up its entire market. Today it has 162 theatres with 1,652 screens serving over 74 million guests annually. That's 79% of the entire Canadian market. For both growth and income investors, shares have performed remarkably. Over the past decade the stock has returned over 250% with an average dividend yield of over 3% annually.

While it may look like the best days are behind it, Cineplex still has plenty of options to continue growing profits.

A huge untapped market

Kudos to Cineplex management for searching every corner of the market for growth opportunities. Over the next year or two, it plans on targeting an opportunity few companies are going after: eSports.

While you may not think of live gaming as a big business, it's actually getting incredibly lucrative. Last year 27 million people watched the *League of Legends* gaming finals compared to only five million for the Stanley Cup finals. Two of the top four most-watched sporting events last year were gaming competitions, putting viewership in the ranks of the NFL Super Bowl or PGA Masters.

There's plenty of money to be made off this growing market segment, even if most companies are ignoring it. eSports raked in an impressive \$748 million last year with a total of 134 million viewers. Analysts expect the market to grow at least 20% a year through 2017. Despite a rapidly growing market, there is actually very little dedicated infrastructure for holding events such as these. That's where Cineplex sees opportunity.

Currently, Cineplex is rolling out a concept called the Rec Room. Each location will feature a restaurant and a bar and a variety of entertainment areas suitable for live gaming events and viewing. While current plans call for 10-15 locations, Cineplex shouldn't run into much competition if the concept proves profitable.

Management has proven savvy

While it dominates the Canadian market, Cineplex is far from being the biggest theatre-chain operator in North America. **Regal Entertainment Group**, **AMC Entertainment Holdings Inc.**, and **Cinemark Holdings, Inc.** are all 2.5-3 times bigger.

Despite its smaller size, Cineplex has profit margins that lead the industry with its profits per screen over 100% higher than its average peer. In the seemingly simple market of operating movie theatres, Cineplex management has shown an ability to generate outsized profits.

Many of management's experiments were hits for both customers and shareholders. In 2014 it tested showing live opera events at many of its theatres. The initial launch across only 24 theatres generated about \$1 million in revenue. By tackling eSports, the company is looking to tap one of the biggest markets for live entertainment. With a proven ability to move into adjacent markets and drive higher profitability, Cineplex has a good chance of succeeding.

While you wait for these growth initiatives to take off, investors can rest easy with a 3.3% dividend—not bad for a company with plenty of growth to come.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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