



## Should Cineplex Inc. Be a Foundation Stock for Your Portfolio?

### Description

**Cineplex Inc.** ([TSX:CGX](#)) is one of my favourite stocks because it is a reminder that companies can evolve and become better businesses over time. It has been developing multiple revenue streams, and if investors had started buying it a couple of years ago, I imagine they are very pleased with their returns.

However, the question that I am left asking is whether or not this company is worth purchasing today at near all-time highs. And if so, is it a core foundational stock? To answer these questions, it helps to have a solid grasp of the company's strategy.

I like to think that Cineplex has three separate businesses.

The first is its movie business. And over the past couple of years, the movie business has been really strong for Cineplex. The most recent *Star Wars* movie came out in December, and it accounted for 6.1% of the quarter's revenue, which is incredible. There was also *Jurassic World* and *Avengers: Age of Ultron*, which added 10% of revenue.

Cineplex has been doing a really great job generating revenue off the back of Hollywood. However, there is the question of whether or not there will be more blockbusters coming out. If **Walt Disney Co** has anything to say about it, there will be plenty more blockbusters to come. And with a *Star Wars* movie planned for every year—and all the comic book movies—I anticipate Cineplex will continue to generate significant revenue from its movie business.

But just in case it doesn't, it has its other two business sectors.

One is an initiative it is launching called the Rec Room. The Rec Room is a large, multiple-purpose room that can be formatted to do multiple things. During the day, it can act as a space for corporate meetings and events, such as corporate parties. And then once the work day is done, it can transition into a place for the family to visit.

The reason I like this is because there defined time frame for the customer to be there. The most recent *Star Wars* was just over two hours. I bought a soda and a popcorn when I got there, and that

was it. When the movie was over, I left. With the Rec Room, I may buy multiple things during my time there, which could last many hours. So the potential for increased revenue per visitor is there.

The final business sector ties in with the movie theatres, but shows that Cineplex is growing less reliant on Hollywood. The company bought 80% of World Gaming, an eSports business. Cineplex hopes to achieve the ability to host competitions for the competitive gaming world. Specifically, it hopes that customers will pay to watch these competitive video games on the big screen while buying concessions.

In 2014, 27 million people watched the *League of Legends* championship and there are dozens of matches leading up to that, which can bring customers back again and again.

Cineplex is an expensive business. And while it pays \$0.13 per month in dividends, investors have to ask themselves whether a 3.1% yield is sufficient enough or if they should look elsewhere for yield. I imagine that this stock still has more room for growth, but at present prices, there might be better stocks out there.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:CGX (Cineplex Inc.)

## **Category**

1. Investing

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