5 Not-So-Obvious Reasons to Own Cineplex Inc.

Description

Toronto-based **Cineplex Inc.** (TSX:CGX) controls 80% of the Canadian motion-picture box office. Having a virtual monopoly on a billion dollar business is a big reason to own its stock. Another plus: it yields more than 3% at the moment—always a key number for dividend investors. And, of course, CEO Ellis Jacobs is one of the best executives in the country.

Investors know all of this. But here are five not-so-obvious reasons to help explain the popularity of its stock.

It's not show business

Sure, movies are the vehicle that attracts people to its 163 theatres across the country, but it's the revenues other than box office receipts that drive growth. No longer is its business just about the big screen—box office receipts in the first three months of 2016 accounted for just 50% of its overall revenue. Today, Cineplex is about entertainment, and movies are but one slice of a growing pie.

It's all about the food

While food service is technically Cineplex's second-largest revenue source behind the box office in terms of actual dollars, its CPP, or concession per patron, grew 45% on a cumulative basis over the past decade to $5.43, more than double its BPP, or box office per patron. In 2015 food service generated $418 million in revenue. While that's almost $300 million less than at the box office, its gross profit from food service was $326 million, or just $8 million less. Food is where the real profits lie.

Tim's TV

You wouldn't know it looking at the results from its digital media business in 2015—which decreased 3.8% year over year $42.8 million—but installing digital menu boards in quick-service restaurants is big business. TimsTV is the largest retail digital network in Canada available at more than 2,300 Tim Hortons locations across Canada. Digital boards are continuing to be rolled out at **A&W** restaurants across the country; soon the same will happen at Dairy Queen. Cineplex's future growth depends on this type of external revenue generation.

Gift cards

Starbucks Corporation (NYSE:SBUX) had something like $1.2 billion loaded onto its gift cards and mobile app as of the end of its first quarter. That money is considered deferred revenue and sits on the liability side of the balance sheet until the cards are actually used to buy drinks, etc. By accounting conventions, it's considered a debt, but it's actually an interest-free loan by its customers.

At the end of March, Cineplex had $128 million in deferred revenue on its balance sheet, and while down from $160 million in Q1 2015, its customers have loaned it that money until vouchers and gift cards are redeemed. Don't think it's a big deal? It represents about 42% of its long-term debt. Companies with this kind of cushion are hard to kill.

eSports

In the first quarter, Cineplex announced a deal between its World Gaming Network and Sony Computer Entertainment Canada to be the presenting sponsor for a select group of national video game tournaments. The first event held in Q1 featured the game *Call of Duty: Black Ops III*.

Think what you want, but eSports is a huge growth industry that's expected to reach a billion dollars globally by 2019. Cineplex has a lot of *Star Wars* and *Star Trek* fans that also play video games. Once more, reaching out to your core audience outside the traditional theatre ensures brand loyalty. It's another smart play from Ellis Jacobs and company.

CATEGORY

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