Is Cineplex Inc. a Worthy Long-Term Investment?

Description

It's good to be king. And when it comes to Canadian movie theatres, no one reigns quite like **Cineplex Inc.** (TSX:CGX). As of June 30, 2016, Cineplex controls 78.5% of the theatre market share; two other companies hold 11.7%, and the remainder is small, independent operations. And, on average, 77 million guests visit the 162 theatres Cineplex owns or leases, watching films on the 1,659 screens.

It's clear: Cineplex is large.

But is it a good investment? I would argue that it very well could be one of Canada's best stocks in the market for a few different reasons.

Naturally, movie theatres are the bread and butter of the business. And while in the past, I was particularly bullish on the movies, the most recent earnings show that Cineplex is dependent on a strong Hollywood. And unfortunately, the past few months have been rather weak for new movies.

This quarter there were only 16.9 million people who went to the movies, which is down from 19.7 million in the same quarter in 2015. Ellis Jacob, president and CEO of Cineplex, explained that this was a result of weaker film products during the period, but also because "its top three films ranked in the top seven highest grossing films of all time." *The Avengers: Age of Ultron, Jurassic World,* and *Furious 7* earned far more money for movie theatres (in Q2 2015) than *Captain America: Civil war, The Jungle Book,* and *Finding Dory* (in Q2 2016) did.

While this also had an impact on concessions, which is where Cineplex makes the most income, it wasn't all bad news. Its box office revenues per patron were up to $9.62 from $9.945–a 1.8% improvement. And its concession revenues per patron were up to $5.74 from $5.50–a 4.4% increase. And with *Assassin's Creed*, *Star Wars*, and the upcoming *Harry Potter* movie coming, revenues should be up quite nicely.

But I like Cineplex despite its dependence on a strong Hollywood because of its product diversification. There are three that I am absolutely crazy about.

The first is its media offerings. Believe it or not, Cineplex is actually in the advertising business and generated $40.2 million in second quarter revenue from its media business. That's up 14.8% from last year. It does this through naming rights of its theatres, but also through digital menu boards. For example, it sells ads on TimeTV, the menu found in 2,300 Tim Hortons locations. It's going to be rolling these out at A&W restaurants and in Dairy Queens.

The second is its Rec Room initiative. Concessions (food, beverage, etc.) is where Cineplex makes top-margin earnings. To become less dependent on Hollywood, Cineplex is rolling out large multi-purpose centres for families to go eat and play. The first one is expected to launch next quarter, which will begin to change the dynamic of the company's earnings.

And finally, it has invested in the eSports business. By 2019 this is expected to be a billion-dollar-a-year business. Cineplex will show tournaments on its big screens, which will allow it to sell concessions to people who want to watch or play.

Cineplex is a smart investment for those who view entertainment as a staple to society. And it pays a rather lucrative yield of 3.25%. The best part? Management just increased the monthly dividend from $0.130 per share to $0.135 per share–a 3.8% difference. If you ask me, this diversified entertainment company that pays $1.62 a year in dividends is definitely a great investment.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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Date
2025/08/24
Date Created
2016/09/01
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