



2 Reasons to Be Bullish About Cineplex Inc.

Description

Cineplex Inc. ([TSX:CGX](#)) is one of those companies that should be dead by now if you listen to tech media. It's the largest movie theatre business in Canada and, with all of the different streaming services around, it should have died. But media was wrong about the movie business and, instead of dying, Cineplex has been thriving. However, it isn't just resting on its laurels; it is prepared for the worst-case scenario.

While there are many reasons to own Cineplex, including all of the wonderful movies that will be coming out in the coming years, there are two primary reasons why I'm particularly bullish on Cineplex.

1. The Rec Room

The way movie theatres make the bulk of their money is through concessions. In many cases, a movie theatre might only get 20% of the total ticket price. Therefore, it has to make money by selling overpriced popcorn and sodas. And we can see that, year over year, Cineplex was able to increase the concession revenues per patron by 4.8% to \$5.69.

One project that Cineplex has been talking about for quite some time is the Rec Room, which is a large, multi-purpose location that is targeted to businesses during the day for events and big meetings; then at night, families can go and spend time with their kids.

With restaurants like Three10, The Loft, and The Shed, and entertainment like The Yard and live and programmed entertainment, there is no end to how much time people might spend in the Rec Room. This should result in an increase in concessions per customer and allow Cineplex to continue pushing its high margin even higher.

The first Rec Room launched in Edmonton back in September. Cineplex has 10-15 locations planned over the next few years with locations in Toronto and Calgary planned for 2017.

2. Media

I went to the movies a few days ago, and I was amazed that I saw commercials before the movie.

Sure, there were previews. But there were also actual commercials. Movie theatres have realized that they have viewer's attention span, so they can sell advertising to companies that want exposure. And this method has been working wonderfully. Cineplex Media saw revenue increase to \$29.1 million from \$25 million—a 16.2% year-over-year improvement.

But it's not just generating revenue in its theatres. Because it has developed relationships with these advertisers, it has started to roll out its capabilities to other destinations. For example, Dairy Queen and A&W Canada have been using Cineplex's digital menu boards. This business has been so successful, it saw a 69.8% year-over-year improvement to \$15.735 million. I expect other brands to follow suit, pushing these numbers even higher.

It's still about movies...

Ultimately, Cineplex is going to derive the bulk of its revenue from the movie theatre business. It owns 162 locations and services 77 million customers every year. Its media business and Rec Room certainly won't replace that. But as it invests in these alternative streams of income, it will become more independent and have more resources to continue innovating. Cineplex is all about entertainment, whether that's in front of the big screen or at a Rec Room, but Cineplex will still sell food and deliver ads.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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