



Cineplex Inc.: Is There Room for Growth?

Description

Cineplex Inc. ([TSX:CGX](#)) is one of those companies that has perfected its core business and started to look for opportunities that are related but allow for further growth. In my opinion, Cineplex has done an amazing job diversifying without working too hard to do it. In many respects, Cineplex is one of my favourite stocks in Canada.

We're living in an age of strong blockbuster movies. I won't talk about the quality of the movie (do we really need another *Transformers*?), but the number of high-quality movies being released in the coming years should continue to bring people to the theatre.

Consider *Star Wars*. When *The Force Awakens* was released at the end of 2015, the company saw a huge bump in its fourth-quarter earnings. Revenue was up 25% to \$407 million year over year and net income more than doubled to \$76.8 million. Concession revenues had increased by 8.6%, which is a big reason the company brought in so much income. *Rogue One* is nearly as popular as *The Force Awakens*, so when Cineplex reports its earnings, expect them to be strong.

And what's fantastic is that there are more movies coming. On average, we'll see a new *Star Wars* movie every 10 months. Every year, Cineplex should get a solid boost thanks to this single franchise. And 2017 will see releases including *X-Men*, *Guardians of the Galaxy*, *Spiderman*, and *Justice League*.

Now if that were everything, I'd be pretty happy. However, Cineplex recognized a danger in everything I just described. What if movies go out of favour? What if the quality drops so significantly that people stop going to the theatre? This dependence on Hollywood put Cineplex in a precarious situation, so it did what any smart company does: it diversified.

The first big step was the launch of its Rec Room initiative. These are large, multi-purpose locations that are meant to bring people in for video games, good restaurants, and family fun. And with no hard deadline (like a movie ending), revenue per patron could be far greater. The first Rec Room opened in September, and there are 10-15 more planned.

The next step was the expansion into eSports. People enjoy watching video game tournaments, and

where better to watch it than on the big screen? Cineplex acquired World Gaming a couple of years ago, and I expect this to become a far larger product as the years go on. In 2016, 43 million people watched the *League of Legends* championship. Imagine if some of them had watched it at Cineplex while eating popcorn. That's what Cineplex is banking on.

There are many other initiatives the company is taking to diversify, including investing in the media business and selling advertising. But the ultimate point here is that Cineplex has a strong core business with great films being released that will continue to grow the company. And it has new lucrative investment opportunities to grow the business even stronger. While Cineplex is on the expensive side, I believe that this company has plenty of room to grow.

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