Is It Worth Buying Cineplex Inc.'s Diversified Business?

Description

At first glance, the past two years have been relatively uneventful for shareholders of **Cineplex Inc.** (TSX:CGX). The stock has only appreciated by about 6.5%. But if you had been holding shares for the past two years, you would have also earned an additional $3.03 in dividends, a relatively lucrative return on investment.

But if you're just looking at the share price, it might seem like this company isn't changing all that much, leaving investors wondering whether they should put their money here or, if instead, they should look to acquire shares of another, faster-moving stock.

One reason to support that argument is that the shares of Cineplex are incredibly expensive. Shares currently trade at more than 28x this year's expected earnings and, based on 2016's earnings, it trades at over 40x. It would require significant growth to bring that in line with a more value-based investment; nevertheless, Cineplex does offer a compelling business model that might make owning shares worth considering anyway.

Despite the bulk of its business being in movie theatres, it actually generates revenue from a wide variety of sources.

One major initiative that I expect to contribute an increasingly large amount of money to both the top and bottom lines is the Rec Room initiative. These massive multi-purpose rooms support business visitors during the day and then, at night, the family can come to enjoy all the amenities that the Rec Room supports.

The company already has one opened in Edmonton and has another one in development in Toronto. There should be about 15 of these open in the next few years. These projects are lucrative primarily because the activities and food & beverage are meant to keep people there for far longer than a movie might due to its allotted timeframe.

Another initiative that I am bullish on is its media business. It owns Cineplex Media, which sells advertising in its movie theatres. It also owns Cineplex Digital Media, which is a merchandising platform. Essentially, fast food restaurants use these state-of-the-art digital menus to display what's available at that particular time. One of the biggest implementations is TimsTV, which is across 2,200 Tim Horton's restaurants.

And finally, there are the gaming initiatives that it's been working on. The first is eSports, with its acquisition of World Gaming. Now individuals can watch competitive video games in the movie theatre. Further, the sponsorship money that comes from owning an eSports brand provides additional revenue to Cineplex.

It also recently acquired Dandy Amusements International Inc., which it will add to its Player One Amusement Group. Dandy Amusements is one of the leading gaming-machine companies in the western United States. While this diversification can be lucrative alone, what I particularly like is that it bolsters Cineplex's exposure to the United States, which should allow it to grow even more.

All in all, Cineplex is an amazing company with a very diversified portfolio of businesses. On one hand, it is very expensive, trading at many earnings multiples higher than I'd ideally like. But on the other, it's well diversified and it pays out a dividend over 3%. With this diversification, I'm comfortable suggesting Cineplex.

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