Cineplex Inc. Needs to Adapt or Risk Becoming Stale

Description

Cineplex Inc. (TSX:CGX) is a Canadian media and exhibition company most well-known for its theatre-chain business. Over the past five years, Cineplex has seen its share price increase by almost 75% and more than double since the company joined the Toronto Stock Exchange (TSX) in early 2011.

I'm going to take a look at Cineplex from the perspective of a long-term investor to try to shed some light on how this company is likely to perform in the long run.

The good

Bulls on Cineplex have continued to point out some of the diversification measures the company has put in place to increase revenue and provide a buffer in the company's traditional exhibition segment, which continues to be hit hard by innovation in the sector.

Cineplex has begun a number of interesting initiatives within its traditional theatre segment, focusing on generating higher revenues by charging premium ticket prices for premium services. Concessions revenue has continued to be robust, and in combination with the company's investments in revenue-generating assets, the business has performed relatively well compared to peers in recent years.

The bad

That said, I simply do not believe the company has done enough in terms of innovation and revenue generation to deserve the current valuation multiples ascribed by the market. Cineplex currently trades more than 40 times trailing earnings and at a price-to-book ratio of 4.4, meaning many other companies with dividends in the 3.5% range are currently much more attractive than Cineplex at this point.

From a long-term perspective, I believe Cineplex's valuation will remain under pressure from intense competition for consumer dollars in the entertainment industry. New streaming platforms and technological breakthroughs with the quality of in-home movies and media in general have provided significant headwinds to the cinema chain business around the world, and Cineplex is no different.

The bottom line

Cineplex is a well-run business which has only traded during the most recent bull market so far. With the company's prospects inexorably tied to the levels of discretionary spending that Canadians attribute to entertainment activities, such as going to the cinema, this company's cyclical nature and potential for re-valuation from its currently very rich valuation to lower levels during the next bear market should not be understated.

Long-term risks associated with new technologies bringing movies to consumers' living rooms are likely to continue to provide headwinds over a long period of time. Unfortunately, at this point, I only see Cineplex stock moving in one direction, and it isn't up.

Stay Foolish, my friends.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/06/30
Date Created
2017/05/31
Author
chrismacdonald