



Here's Why Cineplex Inc. May Continue to Underperform

Description

Cineplex Inc. ([TSX:CGX](#)) has been flat for two-and-a-half years now. Although Cineplex has done a great job of innovating the old-fashioned business of movie and popcorn over the years, it appears that the management team is out of new ideas to drive revenues.

Growth halted thanks to a lack of recent innovation

Cineplex had some great ideas in the past, but it looks like new ideas are becoming difficult to come by these days. There's only so much innovation you can have with movie theatres. Cineplex reinvented the way consumers go out for movies with the VIP experience. The average consumer could grab dinner, a movie, and hit the arcade at Cineplex locations, and this caused the stock to soar in the past. Cineplex can't simply reinvent the movie-going experience again, can it?

Cineplex simply isn't the growth king it was many years ago. I think Cineplex may continue to be a laggard going forward; a few headwinds may prevent Cineplex from breaking out.

Potential long-term headwinds could drag Cineplex down

The general public is opting for a healthier lifestyle. That means eating quinoa salad instead of buttery popcorn, candy, burgers, and hot dogs. Unfortunately, Cineplex doesn't specialize in healthy foods; its concession stands mainly sell overpriced junk food.

Concession revenues have been steady up until now, but going forward, it may be likely that Cineplex's concession segment could take a hit on the chin unless the management team can come up with new and healthy menu options. VIP may offer some healthy choices, but people mainly go to VIP to get alcohol, popcorn, calamari, and greasy burgers.

A headwind that may present itself over the next five years is the rise of virtual reality and the concept of VR theatres. If you own a VR headset, then you've probably heard of or even tried Vive Cinema or Oculus Cinema. You can enjoy your favourite movies on the big screen, and you don't even need to leave your house.

Although VR Cinema is in its early stages, I think it'll become a rising threat to movie theatre companies like Cineplex. Right now, enjoying a movie on a VR device can be a nauseating experience, but a few years down the road, this may change and we could find ourselves "plugged in" to our favourite movie theatres, like in *The Matrix*. This may seem far-fetched, but it's some food for thought.

Takeaway

Cineplex is a cyclical stalwart that can offer investors a steady stream of income, but with a price-to-earnings multiple of 40.47, I don't think the 3.26% yield is worth it, especially considering there are many reasons why the stock may remain flat for longer.

Unless Cineplex can innovate again, I'd stick on the sidelines for now.

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