



Is Cineplex Inc. Reinventing the Night Out?

Description

Cineplex Inc. ([TSX:CGX](#)) has been suffering from a bad case of slowed growth. It's tough to innovate in the movie and popcorn business, especially since the management team has already reinvented the movie-going experience. The movie theatre business is extremely seasonal, and it's out of the company's hands when it comes to what blockbusters are released over a given period of time. Sure, there will always be huge hits like *Star Wars: The Last Jedi*, *Dunkirk*, and *Wonder Woman*, but my primary concern is the many headwinds that will be working against Cineplex over the next few years, as outlined in my [previous piece](#).

The box office and concession segments have accounted for about 57.9% and 29.2%, respectively, of the company's revenues in 2011 compared to 48.2% and 28.7%, respectively, for 2016. Believe it or not, the box office accounts for less of Cineplex's earnings as it finds other areas to grow in the media and general entertainment space.

Could 4D cinemas be a hit?

I believe Cineplex has done all it can to boost its box office revenues thanks to innovative movie-going experiences like VIP, D-BOX, and other initiatives. Going forward, 4D cinemas may be rolled out across locations; for now, it's in the early stages. If 4D cinemas are a success, the experience may give Cineplex's box office a nice bump, but I wouldn't count on it as a source for growth over the medium term.

Cineplex doubling down on general entertainment?

The real growth for Cineplex will be in general entertainment. Rec Rooms have become an intriguing area that may allow Cineplex customers to host major events, including birthday parties. Rec Rooms offer catering, games, and other forms of entertainment to keep guests happy.

Cineplex recently made a deal with Topgolf to bring its venues to Canada. Unlike traditional golf, which baby boomers prefer, millennials love Topgolf; it's a fun entertainment venue for all skill levels. We're talking driving ranges, bars, and great food — not getting a triple bogey on the par five.

It may seem like Cineplex is going off on a tangent by partnering with a golf entertainment company, but some of you may know where Cineplex is going with this. Think about it: Topgolf venues located in close proximity to movie theatres. That sounds like a great night out with friends or a perfect date. Golf, arcade games, dinner, and a movie.

A great strategy to reignite growth

Cineplex is diversifying away from the traditional movie and popcorn business and moving towards becoming a great general entertainment company aimed at Canadians looking for a great night out. As we enter a “stay-at-home” economy, it’s more important than ever to give Canadians a reason to leave the house once in a while. I believe the company is on the right track with this Topgolf deal.

Millennials are willing to spend money for great experiences, and it looks like Cineplex realizes this and is willing to shift away from its traditional business to pounce on this intriguing growth opportunity.

Bottom line

There are many headwinds working against the box office and concession segments, but Cineplex appears to be adapting by becoming a general entertainment company, not just an old-fashioned movie theatre.

Will it be able to offset incoming headwinds? We’ll have to wait and see, but I think there’s a good chance that Cineplex can do this, especially if more partnerships with fun entertainment companies are made.

Cineplex has reinvented the movie-going experience, and now it looks like it’s looking to reinvent a night out.

There are many growth opportunities in the entertainment space, and Topgolf could just be the start. Going forward, we may see more fun, beginner-friendly activities being integrated alongside the current locations. Bowling, go karts, and larger arcades are just some of the potential venues that could be at a Cineplex location near you in the future.

Cineplex is not a cheap stock with its 38.78 price-to-earnings multiple. Although the dividend yield is attractive, I’d wait for a better price before picking up shares. The headwinds are real, but I’m a fan of the management team’s plans to reinvigorate growth.

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Author

joefrenette

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