Why Cineplex Inc. Is a Great Long-Term Investment

Description

Cineplex Inc. (TSX:CGX) hasn't exactly had a great 2017, as a weaker-than-expected summer season has left investors contemplating whether to continue to hold on to their Cineplex shares or perhaps move on to another stock that can provide the growth that investors are looking for.

Year to date, Cineplex has dropped over 20%, but over a longer five-year period, the stock is up over 35%.

Despite this latest pullback, I've been a bull on Cineplex for the longest time and still believe the stock has potential to recoup losses for several reasons.

Stop counting on a summer blockbuster season

First, critics of Cineplex often point to the anemic summer season of blockbuster sales this year compared to last year as a point of concern. Yes, box office sales over the summer blockbuster season are lower than last year, but that's more a symptom of there being more blockbusters coming out this year than last year, and unlike in previous years, this year's blockbusters have been released throughout the year, and not just within the Victoria Day to Labour day weekend segment.

By way of example, some of most highly anticipated movies of the year, which will more than likely be the top grossing films of the year, haven't even been released yet. The *Justice League* movie is set to be released in November, and December will see the latest *Star War*s movie, *The Last Jedi*, come to theatres.

Just purely going on releases from the same franchise (which were not as anticipated as two above) tells a completely different story. *Episode VII* of *Star Wars, The Force Awakens* released in 2015 brought in nearly a billion dollars to theatres, with U.S. openings totaling US$247 million alone.

Turning to the *Justice League's* predecessors, *Batman vs. Superman: Dawn of Justice* brought in US$872.8 million over its course in theatres, and more recent *Wonder Woman* movie brought in US$411 million to date and is still in theatres.

Wasn't Cineplex overweight?

Critics of Cineplex also point to the fact that the company, which developed a reputation for being a dividend great, was over-valued, and as the stock rose that once great dividend started to become less appealing.

The +20% drop year to date in Cineplex has resulted in the dividend yield appreciating to an appetizing 4.25% and the P/E coming down to 33.61.

As Warren Buffet would say, "When others are fearful…"

There's more than movies

One thing that has really impressed me about Cineplex over the years is how the company has created new revenue streams by innovating aspects of the existing yet dated movie and popcorn model.

Whether it's using existing theatres as venues for eGaming, or the new Rec Room model, Cineplex never fails to impress when it comes to innovating.

Perhaps one of the most innovative yet simple developments on this front has been the VIP experience concept. The VIP experience consists of larger recliner style seats with menu service. The experience carries an increased admission cost, but most customers are not only appreciative of the extra service but have opted to use the VIP experience on subsequent visits.

Despite arguments to the contrary, Cineplex remains, in my opinion, a great long-term investment. The company offers a very impressive dividend, and given the pending blockbuster releases later this year, investors should see the current price as an opportunity to increase their investment.

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