



Could Walt Disney Co. Give Cineplex Inc. a New Hope?

Description

Cineplex Inc. ([TSX:CGX](#)) has been a go-to stock for many conservative income investors in the past. It did offer a rock-solid dividend to go with a great deal of capital gains, but the valuation was out of line, as I've [emphasized in many of my previous pieces](#) on Cineplex, before it took its nasty summer plunge.

The plunge was a huge wake-up call, not just for income investors, but for growth investors as well. The stock was priced like a high-flying growth stock, but the fact of the matter was, Cineplex was in the old-school movie-and-popcorn business, where there's really little room to innovate beyond what the company has already done over the past few years. The growth ceiling was really low, and it inevitably hit it. The stock corrected following an absolutely abysmal earnings report.

So, was stagnant growth to blame? Or just a short-term industry-wide headwind of a lack of good movies for the summer? It was likely a combination of both. Not only does management need to adjust the company's long-term growth profile, but it's going to remain vulnerable to a lack of great movies that entice Canadians to leave their homes to see a movie.

As an avid movie-goer myself, I find that I haven't been going to the movies as often, because there aren't enough "must-see" films in theatres these days. Could it be that the best movies are going straight to stream?

Probably not, but I do believe the wide selection of older movies is keeping "avid movie-goers" (those who go to the movies often without a particular movie in mind) in couch-lock. Unfortunately, that's a trend that's here to stay, and Cineplex is going to need to diversify away from its movie business if it's going to continue to be a growth name.

Walt Disney Co. ([NYSE:DIS](#)) to the rescue?

I believe the recent movie drought is a short-term issue, and once *The Last Jedi* is released, it'll mark the end of the drought. Since it's almost guaranteed that Canadians will flock to the theatres to see the next chapter of the epic trilogy.

Disney will be giving Cineplex a Christmas present pretty much every year for the next several years following the announcement that a new *Star Wars* trilogy will be coming with more spin-off movies that will be released in between. If Disney continues to release its movies in December, that's a very good holiday season (Q4) for Cineplex shareholders for the foreseeable future.

Bottom line

Cineplex has done a great job of [innovating and diversifying away](#) from the movie business with recently announced initiatives. But it's still going to be vulnerable to movie droughts in the future, and unfortunately, that's out of management's hands.

I believe Cineplex is on the right track to reignite its growth profile, and in the meantime, there are reasons to be optimistic about movies that will be coming to a theatre near you — especially since Disney appears to be going all-in with its *Star Wars* franchise. Who knows? One *Star Wars* movie a year may turn into two down the road. As a fan, I certainly wouldn't mind! Neither would Cineplex shareholders!

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Date

2025/08/24

Date Created

2017/11/22

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