



Is Cineplex Inc. Still a Promising Dividend Investment?

Description

Cineplex Inc. ([TSX:CGX](#)) is the largest movie theatre operator in the country, with over 1,650 screens that welcome over 70 million customers each year, but does the traditional movie and popcorn business still have a viable place in today's economy?

Let's take a look at the company and what it can offer investors.

Cineplex has a reputation as a great dividend play, but that may be changing. The current 5.44% yield seems appetizing, but unfortunately, given Cineplex's results over the past few quarters, that payout level seems unsustainable unless something changes.

In the most recent quarter, Cineplex saw weaker than expected revenues of \$370.4 million, reflecting a decrease of 1.5%, which Cineplex attributed to a weaker line of films released. Commenting on those [results](#) back in November, I noted that a bevy of new movie releases was going to have an impact on the bottom-line in the next quarter, which is now due in just a few weeks.

Many of those big-name releases have now been in theatres for several weeks now, and we can take a closer look at how they've fared:

Star Wars: The Last Jedi released just a little over a month ago, and by the close of 2017, the movie had already brought in over US\$500 million to box offices.

Justice League released towards the end of November, and by the close of 2017, the movie had hit over US\$225 million at the box office.

Thor: Ragnarok came out in November as well, and by the end of 2017, it had amassed over US\$300 million at the box office.

These figures may provide some lift to Cineplex, but the bigger issue is that Cineplex needs to continue innovating and expanding into more of an entertainment enterprise and less of a movie business.

A new take on a traditional business model

Critics of Cineplex always bring up the traditional movie-and-popcorn business model — and whether that model remains a viable business model in 2018. That business model has not really changed that much in over 50 years; namely, charge admission for customers to watch a show and then offer them concessions during the show.

At a first glance, that model may seem a little outdated, especially given that people can stream movies on a variety of devices in comfort from just about anywhere, without the hefty admission charge. There's an argument to be made that this was a contributing factor in the weaker-than-expected results witnessed over the last few quarters.

So how does Cineplex counter this valid threat? Through innovation. Cineplex has launched several initiatives over the past few years to bring customers back into theatres and attract them to new businesses.

The VIP experience is a perfect example of one innovative initiative. Cineplex VIP theatres offer premium seating in leather recliners with a full menu of food, thus augmenting the traditional popcorn and pop offering. It's available in a growing number of theatres at a higher price point and has garnered rave reviews.

Another innovation taking place within theatres is Cineplex's venture in the eGaming world, which is gaining in popularity. Live gaming events attract crowds of thousands outside Canada and could potentially see the same level of growth here in time. Cineplex has already hosted and streamed several live events, making use of existing theatres.

Outside of theatres, Cineplex has been actively expanding its portfolio as an entertainment company, with both the Rec Room and Topgolf ventures leading the way.

The Rec Room is a massive multi-purpose configurable room that can be set up to host an assortment of events, from birthday parties and gatherings to corporate, catered events. The Rec Room also offers live music, games, food, and drinks to ensure that customers are comfortable and enjoy themselves.

The venture with Topgolf, which is a golf-themed experience that offers games, music, and food to customers. These locations are massive 65,000 square foot venues that span three different levels with a variety of entertainment and games for customers of all ages.

In my opinion, Cineplex remains a great long-term investment, but until that reliance on Hollywood is reduced, don't count on Cineplex remaining a [great dividend](#) option.

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