Cineplex Inc: Why the Show's Not Over Yet!

Description

Critics of **Cineplex Inc.** (TSX:CGX) have long held that the company's over-reliance on theatre admissions and concessions is bound to have a revenue-limiting impact on Cineplex over the long term.

While there is an argument to support that theory — Cineplex took steps to reduce the dependency on Hollywood –there is still plenty to love about this entertainment company.

Let's take a closer look at what critics point to as issues and why they aren't as dire as suggested.

The movie-and-popcorn model

The traditional movie-and-popcorn model has evolved over the past few decades, but hasn't really changed much. That model is still based on charging an admission to see a show and then offering concessions during the show.

One continued concern among investors and analysts alike is that given the emergence of nearly unlimited streaming and viewing options, why would people continue to visit Cineplex's theatres?

There are two issues with this criticism that come down to exclusivity and experience.

Regardless of how many screening options are at our disposal, there's still a window of time following the release of a movie when it's almost exclusively screened in theatres. Thanks to our growing fascination and use of connected devices and smartphones, we're now conditioned to expect to get what we want without waiting for it.

To put it another way, waiting more than three months to watch *The Last Jedi* on a streaming device doesn't satisfy our instant need to see it, whereas going to the theatre today does.

Second, watching a movie is a very different experience in the theatre vs. watching it on your phone. Cineplex has enhanced the movie experience in recent years, converting theatres to the newer VIP experience offering. The VIP experience includes larger leather recliners, wine lists and an upgraded concession menu worthy of inclusion at many restaurants.

In other words, buying a movie ticket has become more of a holistic entertainment experience rather than just a movie.

The summer blockbuster season wasn't as weak as many expected

Theatre revenues are still very dependent on Hollywood's latest blockbusters, which tend to cluster around the summer period from the end of May through the end of August.

During the most recent summer blockbuster season, critics were quick to point out that the disappointing season would weigh in heavily on Cineplex' results.

I took a different view of this and offered a different insight – that while summer traffic was weaker, the usual clustering of blockbusters within a three-month period was now spread out over a longer period. Three of the most anticipated blockbusters of 2017 were released outside of that window, and as a result, reflected outside the quarterly earnings for that period. *Justice League, Thor: Ragnarok* and *Star Wars: The Last Jedi* were all released in the fall period before Christmas.

A similar approach seems to be at play this year, with *The Black Panther* already surpassing the US$300 million mark in February and likely to continue to top box office charts for at least a few weeks. Other blockbusters slated for later this year, including *Avengers: Infinity Wars* and *Deadpool 2* will continue to keep movie-goers interested.

Should you invest in Cineplex?

Following the lower-than-expected results from the summer season, Cineplex reported on the latest quarter this month, which told a completely different story. Revenues in the quarter witnessed a 10.6% increase, which was incredible given that attendance was down by over 2% in the same period.

Cineplex also has an impressive monthly dividend that provides investors with a solid 5.01% yield, making this a great buy-and-forget holding.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/25
Date Created
2018/02/26
Author
dafxentiou