Will Cineplex Inc. Ever Become Great Again?

Description

Cineplex Inc. (TSX:CGX) has been a reliable income stock that's delivered a considerable amount of growth in the past, but as the "stay-at-home" economy continues to take off, the utility-like stability of Cineplex could be in serious jeopardy.

Remember the drive-in days? It was an enjoyable experience to take the car out to enjoy a movie on the *really* big screen. Many of us miss the experience; unfortunately, it became less economical to run drive-in theatres when the cinemas as we know them today became the better bang for an operator's buck. Drive-in movies were far too seasonal, and the benefits of in-house cinemas blew the old-fashioned drive-in completely out of the water until it became a relic of the good ol' days.

Fast-forward to today and it appears that the same thing is happening, with cinemas fast becoming the victims of the rise of video streaming. Of course, streaming is far more economical for customers, as a monthly streaming membership is likely less than the cost of a single movie ticket at your local Cineplex.

Moviegoers (millennials in particular) value experiences; however, it appears that they value convenience and affordability to a greater degree. That's why video streamers have taken off and will continue to do so; the video streaming landscape is going to become ridiculously competitive, with several non-traditional tech firms investing heavily in the production of original content.

Cineplex has been at the mercy of a drought in Hollywood blockbusters over the past year, and it can be argued that the lack of quality productions is the reason many of us would rather stay at home and watch a movie than go out and end up paying more for a movie that's of equal or lower quality.

Sure, that's obviously been a huge contributing factor to the recent crash in Cineplex shares, which was a major reason why I recommended investors to sell the stock last summer, before the bloodbath. But I don't believe Hollywood is fully to blame for the recent box office dry-out. With the change in consumer demands and the dwindling number of people who actually pay to see a movie in theatres, it will become less economical for producers to invest heavily in a big-budget theatrical production.

It appears that the film production industry is shifting towards a lower-budget straight-to-stream model as producers opt for quantity over quality. Unfortunately, this “use it or lose it” scenario wasn’t what many moviegoers had in mind when they chose to stay at home to watch a film rather than go out to watch a movie at Cineplex. Which is why Jimmy Kimmel thanked moviegoers at this year’s Oscars for supporting the industry as we know it, because without them, cinemas will go the way of the drive-in.

That’s devastating news for Cineplex, which is scrambling to dilute its box office segment with the rapidly-growing media and amusements segment. Unless there’s a reversal in consumer trends, I don’t think cinemas are going to be the same anymore, especially given that the video streamers are going to enter a fiercely competitive market, resulting in elevated production budgets in order to poach the subscribers of its competitors.

At this point, I like the direction Cineplex is going with its media and amusements business, which I believe will be a huge success. However, I think the box office segment is in the midst of a serious secular decline, so I’d much prefer waiting for a potential media and amusements spin-off if you’re looking for growth, as I believe the box office segment will continue to be a major drag in the foreseeable future.

In short, I do believe Cineplex will be great again over the extremely long term once the company heavily reduces its dependence on Hollywood. However, until the box office segment becomes just another small chunk of total revenues, Cineplex will continue to be a high-risk/high-reward stock.

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