This 5.5%-Yielding Entertainment Stock Looks Oversold: Time to Load Up?

Description

Cineplex Inc. (TSX:CGX) shares are now down ~44% from their all-time high, which was hit just last year. Last summer, I'd warned investors countless times to throw in the towel on the stock on valuation concerns and because a Hollywood dry-up might stick around for the long haul due to an accelerating secular decline in the movie theatre business.

Indeed, consumer demands have changed over the last few years. And although millennials value experiences over materialistic goods, a trend that I believe will be long lasting, the fact of the matter is that the movie theatre business will, with almost near certainty, continue to decline further, and no amount of innovation is going to stop this industry-wide trend from reversing, especially as the streaming market heats up with more big-name firms entering the industry with their fat wallets.

Netflix Inc. (NASDAQ:NFLX) and video streaming have been around for years now, so why the sudden decline in movie theatre attendance?

I think we're entering an era where film producers may be more inclined to skip theatrical releases altogether, instead opting to sell international rights to the highest-bidding video streamer. With many other big-name tech and media firms (**Apple Inc.**, **Walt Disney Co.**, and **Amazon.com, Inc.**) investing huge sums of money on the production of their own streaming platforms and original content, one can only expect that movie theatre firms will be left out in the cold.

Moving forward, many other behemoths will likely be jumping on the content production or video streaming bandwagon, sparking fiercer competition (like in the U.S. telecom industry) until it'll become uneconomical to run a chain of movie theatres. This may have sounded far-fetched over a year ago, but with many theatre firms on their knees, it appears the only way to survive and thrive is to heavily diversify revenue streams away from Hollywood.

Cineplex's management team has recognized the trend of secular decline in its box office segment. And they've doubled down on efforts to accelerate the dilution of box office revenues before the movie theatre business has a chance to go the way of the drive-in. Who knows? Over the next few years, we may witness a barrage of movie theatre location shutdowns to make way for a Playdium, Rec Room, Topgolf, or other amusing attractions.

With this in mind, Cineplex appears to be steering in the right direction. In fact, I think the company's long-term outlook is clearer than it is over the near term at this point.

Although I believe "Cineplex: the amusements and entertainment company" will be successful over the long run, I think the stock will stand to get hit even harder as it gradually transforms itself. At this point, you're still betting on a rebound in box office revenues over the short to medium term — a bet that I wouldn't make no matter how high the yield gets.

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