Why Cineplex Inc. (TSX:CGX) Is an Intriguing Buy

Description

It seems everything relating to **Cineplex Inc.** (TSX:CGX) lately is negative. Declining revenues and a steady reduction in movie attendance have many people decrying the end of the movie-and-popcorn business.

That couldn't be further from the truth. While many investors, and even some of my Foolish colleagues, are bearish on the stock, I'm leaning more to the bull side of the argument.

The movie-and-popcorn business is *evolving*

Cineplex, and, by extension, every movie theatre business, operates under a very simple model: it charges admission to a show, and then charge patrons for concessions they can enjoy during the show.

That model has worked incredibly well for over half a century, but there are some cracks appearing in that once solid model.

First, there are a growing number of ways to watch Hollywood's latest blockbuster, from streaming on mobiles and tablets to watching movies on large-screen Smart TVs. By comparison, sitting in a theatre with other people for a few hours while overpaying for concessions is hardly enjoyable.

Then there's the exclusivity, or lack thereof, in viewing the latest movies in the theatre. Gone are the days when watching a movie in the theatre was the only way to see the latest blockbuster, at least for several months, if not a year, before that movie came to pay-per-view stations.

Finally, there are the studios themselves. Cineplex is at the mercy of Hollywood's vision of what customers want to see, and the studios take a sizable cut from box office revenue as well. Additionally, over the course of the past two years, the traditional May to September summer blockbuster season has eroded, with many of the largest movies of the year released outside that time. Strangely enough, critics still point to that summer season decline without looking at the better-than-expected results that come in the following quarter.

Cineplex has to find ways to lure people back to its theatres year-round and reduce the reliance on

Hollywood by adding new revenue streams. There's still massive potential in the movie business, and, unfortunately, many investors bypass it.

Cineplex is improving

Cineplex's VIP offering is one such example of diversification. The VIP experience tickets, while more expensive than regular Cineplex tickets, offer better seating, better concessions, and a more personal experience. While there are always people who will prefer to watch a movie alone on a five-inch smartphone screen, there are countless others that will still prefer a large screen, good food, stereo sound, and leather reclining seats to enjoy with others.

Cineplex's most valuable asset is arguably its massive theatres, which are increasingly being re-purposed to offer customers other shows, such as live gaming events through Cineplex's investment into the growing eGaming community. The company already hosts dozens of gaming events in theatres that attract thousands of customers, with additional future competitions and events already on the calendar.

The Rec Room is another interesting concept. The multi-configurable rooms offer food, live entertainment, and games, hosting anything from small get-togethers and parties to fully catered events. Since the first batch of Rec Rooms opened, they've proven to be incredibly popular and have seen tremendous growth. By way of example, in the most recent quarter the Rec Room reported $16.7 million in revenue, and the company plans to open two additional locations within the next year.

There's also Cineplex's Digital Media arm, which is responsible for the placement of digital menu ordering screens in fast-food restaurants. This unlikely venture by Cineplex has proven largely successful, and in the most recent quarterly results, the company announced that the Digital Media segment was chosen to provide menu boards for fast-food stores in Argentina, Brazil, and Uruguay.

Finally, there's the impressive monthly dividend that Cineplex offers, which currently provides an appetizing 5.48% yield, making Cineplex one of the best dividends in the market.

In my opinion, Cineplex remains an intriguing opportunity for long-term investors. The stock has already dropped over 44% in the past year, and while the current P/E of 25.77 may seem high, the investments that Cineplex is making to both invigorate its traditional business and expand into new ones are going to provide handsome returns over the long term.

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