Has Cineplex Inc. (TSX:CGX) Finally Hit Rock Bottom?

Description

Cineplex Inc. (TSX:CGX) has definitely hurt a lot of income investors, including those who attempted to catch the falling knife on the way down. Some investors were led to believe that the summer drought at the box office stood to be a temporary setback. As soon as Hollywood gets the good movies flowing again, Canadians would return to movie theatres, right?

Fast forward nearly a year later, and shares have not bounced back. In fact, they've continued to free fall, despite an improving lineup of theatrical films, including *Avengers: Infinity War*, *Deadpool 2*, *Black Panther*, *Annihilation, Ready Player One*, and *Solo: A Star Wars Story.*

Walt Disney Co. productions seemed to have the magical ability to get butts in the seats of theatres, but this clearly wasn't the case when it came to the latest Star Wars film, *Solo*, which fell far short of box office expectations.

Could this signal the erosion of hype surrounding the powerful Star Wars franchise that was expected to consistently kill it at the box office every year?

In a previous piece, I'd noted that not even The Force would be able to help Cineplex out of its funk, as the tectonic shift from movie theatres to at-home video streaming continues to accelerate thanks in part to a rapidly increasing budget for straight-to-stream content and the fact that most streamers have a backlog of films and television shows that will probably only grow with time.

A solid lineup of films is no longer a guarantee of success anymore, and at this point, it appears that box office forecasts should be taken with a grain of salt.

General entertainment and amusements segment continues to show signs of strength

Although the box office side of the business appears to be in continued secular decline, Cineplex has made great strides with its diversification efforts to move away from the movies and into general entertainment — a segment that I'm bullish on, despite being a permabear on Cineplex's overall business.

The Rec Room concept has taken off, and as Playdium locations open across the country, I'm confident that Cineplex will eventually get back on the growth track over the next five years, but in the meantime, the pain at the box office is probably going to continue to be a drag on Cineplex stock, as video streamers go to war with one another for subscribers, hurting theatres in the process.

Has a bottom been hit yet?

At the time of writing, Cineplex shares are down ~44% from all-time highs. Now at 29.3 times trailing earnings, shares still appear richly valued, but at just a slight premium to its no-growth U.S. peers, I think the long-term growth prospects of Cineplex's amusements and entertainment segment is being overlooked.

Cineplex may represent a compelling rebound opportunity for long-term investors who are looking to collect a fat 6% dividend yield, but unless you're willing to put up with medium-term pain, I wouldn't jump in quite yet. Although the amusements and entertainment segment is firing on all cylinders, the fact remains that the box office will continue to represent a vast majority of the company's overall revenues over the foreseeable future.

In time, though, I believe the secular decline at the box office will bottom out, but I don't think that time is here yet.

Why?

Apple Inc. (NASDAQ:AAPL) and many other behemoths are jumping into the film production industry with the intent of providing quality content that's exclusive to various streaming platforms. I believe that's going to further pressure the movie theatre industry, potentially giving big-budget film producers less of an incentive to go the way of the theatrical release.

Until non-traditional video content creators (like Apple) hit the brakes on content growth, I'd continue to avoid shares of Cineplex like the plague because the "stay-at-home economy" is here to stay.

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