It's Time to Silence Critics of Cineplex Inc. (TSX:CGX)

Description

Cineplex (TSX:CGX) has lagged the market this year, dropping over 10% year to date. That drop, as well as the never-ending argument over Cineplex's reliance on the movie-and-popcorn business model, has some investors wondering whether this is an opportunity to buy or sell the stock.

Let's take a look at the company and try to answer that question.

Cineplex and the Hollywood blockbuster: Friends or foes?

One of the biggest and most widely cited criticisms of Cineplex stems from its over-reliance on Hollywood's capacity to release blockbusters. Traditionally, the blockbuster season from the U.S. Memorial Day weekend through the Labour Day weekend has provided a significant portion of Cineplex's revenue — something that investors and analysts were keen to take note of.

But over the past few years, Hollywood has started to spread out its blockbuster releases across the full calendar year, with many of the biggest releases falling well outside that traditional summer window. *Star Wars: The Force Awakens*, *Black Panther*, and *Avengers: Infinity War* are just a few recent examples, but the message is clear — blockbusters could be released at any time.

While this doesn't directly impact on the eventual earnings from the box office, it does need to be mentioned to help investors manage expectations, as potential investors may pass on an otherwise great investment due to the perceived "weak summer box office," as was the case last summer.

Another frequent concern worth noting is the belief that theatre attendance is dropping, as the proliferation of a wide variety of devices, smart TVs, and online streaming options are negating the need for customers to go to a theatre to watch a new release.

While some of that point is true, it is also worth noting that Cineplex is diversifying its business into a number of different areas, all of which are going to gradually comprise a larger portion of revenues to offset any change in consumer viewing habits. This includes the company's wildly successful Rec Room concept, which continues to open new locations across the country, as well as Cineplex's digital media segment, which is known for installing the large digital menu screens in fast-food stores across the country and internationally.

As a point of reference, in the most recent quarterly update from Cineplex, those areas comprised nearly a quarter of all revenue. Total revenue across the company came in at $409.1 million for the quarter, registering a healthy 12.4% over the same period last year.

EBITDA for the quarter was $121.4 million, up by 24.5% over the same quarter last year.

What about value?

Over the course of the past year, a growing number of critics have pointed to Cineplex's swelling P/E ratio and stock price, citing that the company was overvalued.

Fortunately, the over 35% drop in the past two-year period has silenced those critics. The current $33 stock price now comes with a respectable P/E of 24.57, and the drop has also pushed Cineplex's monthly dividend up to a very appetizing 5.33%, making the stock a very attractive option for dividend-seeking investors.

In my opinion, Cineplex is a great option for those investors looking to diversify their portfolios with a long-term income investment that can also provide some growth.

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