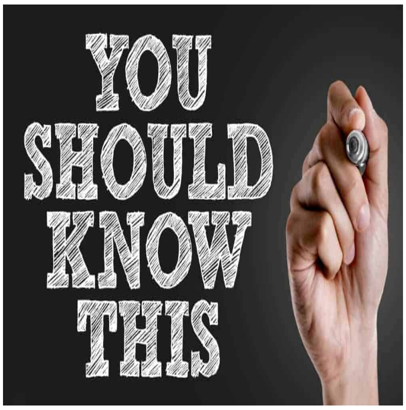

Here’s How 2019 Will Pan Out for Cineplex (TSX:CGX)

Description

I’m a big fan of **Cineplex** (TSX:CGX) but even I can see the headwinds that the company is facing and will continue to face in the upcoming year. Box office revenue is still at the mercy of Hollywood, and with a growing list of online services and devices able to stream content from nearly everywhere, the inflated movie and food prices available at the theatre may not be enough to prevent the slow decline of this entertainment titan.

Let’s take a moment to discuss whether this means investors should dump, buy, or pass on Cineplex altogether.

Cineplex isn’t just movies

The first point that I want to make completely clear is that while the traditional movie and popcorn business is an important part of Cineplex’s revenue stream, it is not the only component, and it is decreasing in importance.

In fact, many investors and even analysts often neglect to mention that Cineplex is in actuality an entertainment company, with several diversified options for investors beyond just movies.

Specifically, Cineplex’s Rec Room venues continue to attract more customers and revenue, leading Cineplex to seek out additional candidate locations for the popular venue. By example, in the most recent quarter, the Rec Room contributed $16.8 million in revenue, consisting of both a 27.7% increase year-over-year in food service, and a 90.5% increase in amusement revenues.

Another interesting venture worth noting is Cineplex’s Digital Media segment, which is largely attributed to the increasing use of digital menu boards across the fast food industry. Over the course of the past two years, the Digital Media segment has secured several high-value contracts with leading fast food companies worldwide. The most recent example of this was Cineplex being selected to set up and operate menu boards for European locations of Subway.

Finally, there’s the egaming arm of Cineplex to mention. Egaming is a growing trend in Canada and elsewhere, with live and recorded games attracting an audience of thousands of customers and potentially millions in concessions and admissions for the company.

The movies are changing too

Cineplex is evolving within the realm of its traditional movie and popcorn model too. The company's highly successful VIP experience, which provides patrons with larger recliner-style seats and a full menu has proven incredibly popular.

That traditional model is based on an old, but reliable business; charge customers an admission to see a show and then offer to sell them concessions. By tweaking the experience slightly, Cineplex can still adhere to that same model while attracting new and repeat customers.

The latest incarnation of the VIP experience comes in the form of adult-only theatres. The new venues will include a licensed lounge along with auditoriums outfitted with recliners and full menu and beverage service. Cineplex opened its first adult-only theatre this past summer in Calgary and a second location is slated to be completed in 2021.

Should you buy Cineplex?

Cineplex is an intriguing opportunity for investors, but it doesn't come without risk. The company is transitioning its reliance off the movie-and-popcorn business, diversifying into other ventures, any of which could provide a handsome return for the company.

Perhaps one of the most attractive aspects for investors to consider is Cineplex's monthly dividend, which currently provides a very appetizing 6.93% yield. Critics often point to that dividend as being unsustainable over the long term, particularly if movie theatre revenue continues to decline.

While there is an argument to be made for this that decline is unlikely to happen anytime soon. If anything, 2019 is promising to be one of the biggest box office winners in memory, with follow-ups across highly successful franchises such as *Star Wars, Avengers, Frozen, and Toy Story* likely to set records.

In my opinion, Cineplex remains a promising investment worthy of inclusion. Buy it now and forget about it for 2019.

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Date
2025/07/01
Date Created
2018/12/31
Author
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