



Could Free Popcorn Send Cineplex (TSX:CGX) Stock to \$50?

Description

Cineplex ([TSX:CGX](#)) stock was a [dog](#) in 2018, and with video streamers slated to enter a full out content war, there's no question that Cineplex stock could be destined to remain in the doghouse for many more years to come.

While it seems like all hope is lost for Cineplex at this juncture, there are some positive developments that could relieve a meaningful portion of the tremendous pressure that its box office segment has been under over the past year. Most notably, Cineplex's management team has been quick on its feet to beef up its "amusements and entertainment" segment to better diversify its revenue stream and lower the dependence on Hollywood.

As all of our video streaming watch lists continue to swell with more movies than we have time to watch, I still believe the troubles at the box office will continue to mount. And while I'm still bearish on Cineplex for 2019, the longer-term perspective does seem brighter. The million-dollar question is this: when will the bar be low enough such that Cineplex will be able to pole vault over it?

Could free popcorn give the top line a pop?

Last Saturday was National Popcorn Day, and Cineplex pounced at the opportunity to win back the attention of moviegoers, many of whom haven't been back in many months due to the wealth of content available to them through video streaming platforms. Cineplex offered patrons a free bag of popcorn for the day, and it's likely that many folks marked the date on their calendars, regardless of whether or not they were dying to see anything in theatres.

Although the day may have been a one-day boost, management may be experimenting with different ways to "bribe" people to go out to see a movie. While there will be tens of thousands of kernels popped at the expense of Cineplex, the additional bums that will fill the seats will likely dwarf the costs absorbed from those free bags of popcorn. Popcorn is dirt cheap to make, and as one of the higher margin items on the menu, the company may find that taking a slight hit to its concession segment may be balanced out (and then some) by the struggling box office segment.

In any case, nothing gets people hyped like “free food” that tastes that much better. Over the next year, I wouldn’t at all be surprised to see more promos or some increase to the purchasing power of SCENE points. The next thing you know, you’ll be able to go to the movie theatre regularly without breaking the bank, which is precisely what Cineplex needs to do if it’s going to weather the stream storm on the horizon.

Foolish takeaway

Although Cineplex has a long-term plan to get back on track and a potential solution to combat the tumbleweeds in its theatres, I wouldn’t bother buying shares at \$27 and change. It’s just too expensive when you consider the streaming headwinds in 2019 and the expansion of Guzzo, a Quebec-based theatre operator that’s moving further into Cineplex’s turf.

With that in mind, \$50 Cineplex is out of the question, as I suspect free popcorn won’t give the stock the [pop](#) that investors are hoping for.

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