



Cineplex Inc. (TSX:CGX): Why the Naysayers Have it All Wrong

Description

It's been a tough 18 months for **Cineplex** ([TSX:CGX](#)) shareholders.

Shares of Canada's largest chain of movie theatres have declined more than 50% from their highs in September 2017 for a number of reasons: 2017 was a weak year, with both box office revenue and total attendance falling. That marked the first year since 2011 the industry saw such weak numbers.

Then there was 2018. Some metrics improved — like overall revenue and earnings — but it was a mixed picture with movie attendance falling for the second straight year. Canadians made 1.6% fewer trips to Cineplex movie theatres last year, but that was offset by better concession revenue and growth in some of the company's alternative offerings like Topgolf and The Rec Room.

These mixed numbers have been enough for many analysts to proclaim the death of the movie theatre is upon us. For instance, fellow Fool analyst Jason Phillips [thinks the company might have to cut its 7.1% dividend](#), while Ambrose O'Callaghan thinks short-term numbers could continue to be weak [because of overall lacklustre movie-attendance trends](#).

While I think the naysayers certainly have a point, these folks are missing the big picture. Here's why I believe Cineplex will come back, making today's low price a fantastic investment opportunity.

Hollywood will come back

Critics say the biggest issue plaguing Cineplex is Hollywood. The big movie studios don't have any innovative ideas these days. All they're doing is redoing classic movies and making predictable sequels to successful franchises.

And then there's the **Netflix** factor. The streaming service is spending aggressively on its own movies, knowing that type of content is much cheaper over the long term versus paying a studio or television network continually for the rights to stream their property.

Some analysts conclude Netflix is getting all the good directors and producers, leaving Hollywood with

the scraps. All the innovative folks have left, and this is weighing down the whole traditional movie sector.

But it's silly to count out one of the biggest sectors in North America. And Netflix simply can't afford to keep spending US\$13-15 billion a year on content without gaining millions of additional subscribers.

I agree with the critics that the traditional studios will need to adapt to this new world. Perhaps it means more releases with a lower budget for each film. But I'm confident the movie industry as we know it isn't dead.

Other assets

The naysayers often ignore Cineplex's plethora of other assets, focusing instead on the theatre business.

For instance, Cineplex's SCENE loyalty program currently boasts some nine million members, making it one of the largest loyalty programs in Canada today. Aeroplan, which only has about half as many members, recently sold for a final price of \$497 million plus the assumption of \$2 billion worth of liabilities.

And then there's the growth potential from some of the other parts of the company. Amusement revenue, which makes up about 15% of total sales today, increased by more than 8% in 2018. Look for this part of the company to continue growing as more locations are opened across the country.

Finally, management isn't taking this downturn in stride. They're using the opportunity to cut some \$25 million in annual costs, which should flow straight to the bottom line. This will be especially helpful as the sector picks back up.

Final thoughts

As the old expression goes, it's darkest just before the dawn. I believe we're at that point with Cineplex shares today.

Investors who buy shares today are looking at potential 100% upside while getting paid a 7.1% dividend to wait. Sure, there are risks, but I believe the company powers through and rewards patient shareholders. Will you be one of them? Or will you miss out on this glorious long-term buying opportunity?

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