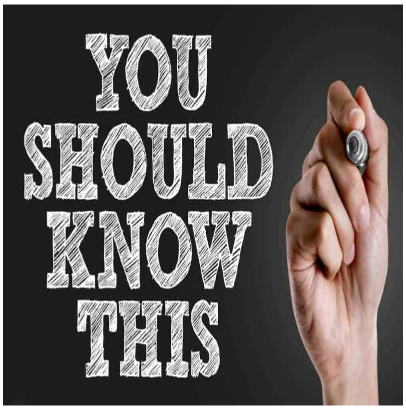

Protect Your TFSA From a Massive Drop by Avoiding This Popular Stock

Description

If not for the high 7.0% dividend, **Cineplex Inc.** (TSX:CGX) would lose investors and sink like the ill-fated Titanic. However, that is not the story for the top-tier Canadian entertainment and media company. The well-managed firm might not be able to keep long-term investors happy.

Last year was not a good year as theatre patrons shifted from cinemas to streaming/TV. The premium video on demand trended, causing a shorter line at ticket booths. Somehow, Cineplex follows the success of the movie business. The lack of blockbusters in the last two quarters of 2018 had serious impact on revenue.

The concerns for the future

The real concern at the moment is the notion that people have grown tired of movie going. If that is the case, then Cineplex faces survival problems that threaten dividend payouts. Another disappointing quarter could have serious repercussions, like a sharp drop in share prices.

CGX's current price of $24.62 is 3.22% lower than its year-end price and struggling to rise from the trenches. But the up and down movement thus far is similar to last year's pattern, although the prices were above the present level.

Movie exhibition is Cineplex's bread and butter but is gravely under attack by the likes of Netflix and Apple TV. There has to be away to innovate and diversify revenue streams to counter the onslaught of these streaming giants.

For years, Cineplex has demonstrated financial discipline and showed strong balance sheet. But in order to be able to maintain that trademark, sustainable cash flow is necessary. The industry is changing, and Cineplex must adapt by coming up with new entertainment activities.

When the movie slate is strong, people will flock to theatres and spend. An impressive lineup in the second quarter could stem the tide a bit, but only momentarily. Relying on box office performancewon't cut it. Cineplex has to work double time to diversify its business.

Converting to an entertainment centre

It's no longer a matter of reinventing the wheel because Cineplex's business model is passé and the industry's future is uncertain. Streaming scaled tremendously and is very hard to compete against. The better move is to fully convert to an entertainment centre offering multiple, attractive activities for both the young and old.

The so-called Rec Room complete with amusement games is fast gaining popularity. Income contribution from this venture along with other non-movie dependent endeavors should increase to at least two-thirds of revenue. Movie contribution stands at 75% of Cineplex's revenues.

Cineplex faces an uphill battle until the company can succeed and become a fixture in the entertainment space. However, the value of the diversification efforts will not be immediate. An added risk is the borrowing to fund the diversification and acquisition strategies. The company is in a danger zone and therefore the stock is a weak buy.

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