Will Disney+ Mark the End of Cineplex Inc. (TSX:CGX)?

Description

The movie theater business is not a great place to invest right now.

The interesting thing is it has little to do with underlying results. People are still going to the movies, even in an era where thousands of titles are at your fingertips every time you fire up the **Netflix** app.

Take **Cineplex Inc.** (TSX:CGX), Canada's largest chain of movie theaters. In 2018 the company reported a 3.1% increase in revenue, which was boosted by higher average prices and great results from the concession. This was partially offset by a 1.6% decrease in theater attendance. Fourth-quarter results were a little weaker still, something the company attributes to a stronger movie slate in 2017, which included the most recent Star Wars movie, *The Last Jedi*.

Investors responded by sending Cineplex shares lower. The stock trades for just over $24 at writing, and Cineplex shares have the dubious honour of decreasing 5% so far in 2019, while the rest of the market is up nicely.

Now that **Walt Disney Company** (NYSE:DIS) has announced that it is getting into the streaming game with its new Disney+ product, can Cineplex pull itself out of this funk? Let's take a closer look.

The threat of Disney+

It's little wonder that Cineplex investors are nervous about Disney+. It appears to be a formidable product that will appeal to millions of people.

Subscribers will get access to content from Disney properties like Star Wars, Marvel, Pixar, Walt Disney Pictures, Walt Disney Animated Studios, *National Geographic*, and the recently acquired library of 20th Century Fox. In total, the service is expected to launch with some 7,000 television episodes and 500 movies.

The threat to Cineplex won't really come from the backlog of titles, as these movies have already done their time on the big screen. What should make shareholders nervous is the reaction of moviegoers, who may just wait to see the latest *Star Wars* or Marvel movie on their television at home versus shelling out $30 for a movie ticket and snacks. Remember, it's easily $100 for a family of four to go see a movie and get snacks.

Disney+ will also feature original content that further adds to its most successful franchises. Spending on these shows will start at US$500 million annually, but will likely spring into the billions soon enough. This should be easily enough content to keep fans engaged. We only have so many leisure hours to watch television; some moviegoers might therefore vote to have a few more nights in, especially when the service first launches.

How Cineplex adapts

This might all seem pretty bearish for Cineplex, but I'm not sure we can count this company out quite yet.

Remember, Cineplex is diversifying away from just operating movie theaters. It owns concepts like The Rec Room, which is like Chuck-E-Cheese for adults, and Top Golf. Its SCENE loyalty program is one of Canada's largest consumer rewards programs, too.

The rest of 2019 is shaping up to be a solid year at the box office, too. Hollywood has an impressive slate of movies coming out this summer, including *Avengers: Endgame*, *Toy Story 4*, *Lion King*, new versions of *Godzilla*, *Men in Black*, and *Child's Play*, as well as the latest *Spiderman* and *X-Men* movies. And remember, the newest Star Wars movie will come to theaters in December.

In short, Hollywood is stepping up its game in 2019, which should bode well for Cineplex's short-term results.

The bottom line

There's no sugar coating it. This new streaming service will be a behemoth and could very well impact Cineplex in a negative way.

But at this point, there's no reason to get excited. Cineplex is a strong company, and the traditional movie industry is fighting hard to stay relevant in a streaming world. And investors are getting a 7.2% yield while they wait — a payout that's easily covered by free cash flow.

Investors should be a little nervous right now, but that's it. Just wait and see just how much this new streaming service hurts Cineplex before making any decisions. Because if it turns out to have a minimal impact, Cineplex shares could be much higher a year from now.

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