



## Why Cineplex (TSX:CGX) Is Finally Ready for a Turnaround

### Description

In the last few years, markets have not been kind to **Cineplex** ([TSX:CGX](#)). The stock has come off its all-time highs in 2016 at roughly \$54 and is now sitting below \$25, less than half the value. For years, investors and analysts had been waiting to see meaningful diversification away from the theatre model. Although the effort to diversify was put in, the results were never quite delivered.

At last it looks like [Cineplex](#) is finally on a well-defined path to diversification and reinvigorating its business going forward. New growth segments as well as new ways for existing segments to improve are the main catalysts for a turnaround in the stock.

### Theatre business

Cineplex's core business is the theatre business, which is the largest and most successful in Canada. It currently has over 75% of the market share, with 164 theatres totalling 1,686 screens.

The need for diversification comes when you look at box office revenue and attendance over time. Box office revenue has been relatively flat since 2015, while attendance has been declining. In 2015, customers made 77 million visits to the movies, whereas last year in 2018 that number had fallen to 69 million.

The company has done an impressive job of keeping total box office revenue consistent, even as the number of visitors declined. Box office per patron has been rising, which has been able to offset the decrease in number of visits.

Cineplex continues to find ways to extract more money out of patrons. It has mainly achieved this is through the growth of the premium experiences it offers. In 2018, premium experiences accounted for over 40% of total box office revenue.

As in the past, Cineplex has continued to deliver in the concession segment. Theatre food service revenue had a compounded annual growth rate (CAGR) of 5.8% the last 10 years; on a per-patron basis the number has been growing even faster. In 2008, theatre food service averaged \$3.96 per

customer. At year end 2018, Cineplex was averaging \$6.36 per customer.

## Media

Cineplex has been attempting to grow revenue online as well by creating two digital commerce platforms for its customers. The first venture it's taken was creating the Cineplex Store. The Cineplex store is an online service that allows customers to buy, rent, and download digital movies. Currently, it has over 8,400 titles. It offers at-home and on-the-go viewing on all devices.

Another digital commerce platform is the SuperTicket, which allows costumers to purchase a movie ticket and pre-order the digital download of that movie at the same time.

## Amusement and leisure

The amusement and leisure segment offers Cineplex the most opportunity for growth. Cineplex's Xscape and other family entertainment centres have been revitalized with brand-new, state-of-the-art games and equipment. Additionally, Cineplex has been positioning itself to benefit from the fast-growing world of e-sports.

The location-based entertainment Cineplex has in its portfolio looks the most promising going forward. The Rec Room, a food and entertainment destination, which has been growing in popularity, now has six locations open. Playdium is also starting to open new locations across Canada. Cineplex is targeting both Playdium and The Rec Room to have 10-15 total stores each.

Cineplex has also entered a joint venture with Topgolf to bring the revolutionary sports and entertainment experience to Canada. The plan for now is to open six to eight locations, with those announcements coming in 2020.

## Loyalty program

The strongest feature that Cineplex has is its loyalty program. The SCENE program that Cineplex has built over the years is one of the best. Currently, over nine million accounts exist, meaning one in five Canadians have an account and roughly 45% of households have an account holder.

The loyalty program is important, because in addition to driving traffic, it also encourages customers to spend more while on location. It will also help to attract future customers and marketshare in other segments Cineplex invests in, such as the digital platforms its rolling out.

Cineplex has finally shown a promising path to diversification and continued growth. While it may take some time to build all the locations and scale earnings, the stock currently pays a hefty 7% dividend, which is a fair yield to collect while you wait.

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