Why You Should Buy, Not Sell Cineplex (TSX:CGX) Now

Description

Cineplex (TSX:CGX) is Canada's largest entertainment company, best known for its extensive network of movie theatres. Despite that obvious market advantage, critics of Cineplex point to emerging issues with the company's core business model as a reason to steer clear of the company.

Debunking the "Cineplex-is-dying" myth

The two main points to prop up that argument are declining box office sales and the proliferation of new devices to stream content on.

In the most recent quarter, theatre attendance came in just shy of 15 million patrons for the first quarter of 2019, reflecting a 15.6% drop over the same period in 2018. That 2018 figure was also 9.3% lower than the attendance that Cineplex reported back in 2017, which was also 4.8% lower than what was reported in 2016.

This is the smoking gun that critics of Cineplex point to, but, unfortunately, it only tells half of the story.

Cineplex is reliant on Hollywood to produce the movies that patrons want to see. Industry pundits often point to the summer blockbuster season as a measure of that success, too. The problem with that is the traditional blockbuster season has been eliminated with the introduction of large multi-movie franchises that have release dates across the entire calendar year.

For example, note that the biggest movie releases in the past three years have all come outside of that traditional blockbuster season. *Black Panther* was released in February 2018, taking in US$1.344 billion globally. A few weeks later, *Avengers: Infinity War* took in an incredible US$2.048 billion across the global market.

Earlier this year, *Captain Marvel* raked in US$1.128 billion, and the recently released *Avengers Endgame* has already surpassed US$2.7 billion globally.

And that's just taking into consideration one franchise. Had I included movies from the Star Wars and

DC Comics universe, it would be an even more telling story that would include the top grossing films of 2017 as well.

In short, there's no such thing as a blockbuster season anymore, and the rotating release periods make it difficult to compare attendance in prior periods. In other words, the 15% decline in attendance noted in the most recent quarter is more attributed to patrons going to watch *Black Panther last year* rather than not going to watch another movie *this year*.

Cineplex is more than movies

Apart from the movie business, Cineplex has several side ventures in play, all of which are showing promise in reducing the dependency on the box office.

Cineplex's foray into the world of digital menus is one that merits mention, as does the highly successful and growing Rec Room.

In the case of the digital menu business, Cineplex has amassed a network of clientele both in Canada and abroad, which includes some of the biggest names in the fast-food industry, as well as providing digital signage for prominent locations such as the video wall located at First Canadian Place in Toronto. In the most recent quarter, the digital media group reported revenues of $13.6 million, reflecting a 21.9% increase over the same period last year.

The Rec Room is another intriguing business to mention. The Rec Room offers games, dining, and live entertainment in venues that can be reconfigured to any size. Cineplex currently has six Rec Rooms located across Ontario and Alberta, with additional locations, including expanding into B.C., currently in development.

Final thoughts

Cineplex is innovating outside its traditional comfort zone. Hollywood is churning out an increasing number of stellar movies that patrons are still paying for. This makes for an exciting time for Cineplex investors.

Additionally, Cineplex has one of the best-paying dividends on the market; its monthly distribution has a yield of 7.71%

If that still won't convince you to buy Cineplex, then perhaps the fact that Cineplex is trading near its lowest level in years might offer some added incentive.

Cineplex currently has a P/E of 27.83, which, barring temporary dips earlier this year, is a level not seen since the end of 2016.

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