



Why This Stock Could Prove More Lucrative Than You Think

Description

Cineplex ([TSX:CGX](#)) is one of the most misleading stocks on the market at the moment.

As Canada's largest entertainment company, Cineplex attracts a lot of attention. The company is best known for its network of movie theatre screens that blanket the country, and it is that business segment that critics of Cineplex have been the most vocal about.

What's wrong with the movie business?

When was the last time you walked into a movie theatre? For a growing number of us, apart from visiting the theatre to watch that generational and sometimes epic blockbuster (such as last summer's *Avengers: Endgame*), those visits are becoming rarer events. Considering that Cineplex derives most of its income from the movie-and-popcorn business, that's problematic.

Part of the reason for that shift stems from the growing number of ways in which we can consume media. There are [smartphones](#), tablets, and smart TVs that can stream a virtually unlimited amount of content, all from a growing number of streaming service companies.

To put it another way, for the price of one movie ticket (excluding the popcorn and pop), you could buy a month or more of unlimited streaming. Ouch.

Another point is that Cineplex's movie business is largely dependent on the quality of movies being churned out by Hollywood. If there was a bad season for Hollywood releases, it was painfully reflected in Cineplex's box office earnings numbers.

While not all quarters are bad, attendance numbers at the box office have been sliding. By way of example, in the most recent quarter, theatre attendance dipped by 300,000 patrons over the same period last year, which played a small part in net income dropping from \$24.4 million to \$19.4 million.

How is Cineplex addressing these issues?

Cineplex is addressing these concerns in two ways. First, there's adding new features and amenities to draw customers back into theatres. Some examples of these include better seating, better menu items, and attractive rewards programs.

While none of these efforts will single-handedly solve the problem of declining box office numbers, it will provide customers with ample options (which are all better than huddling around a table to watch a blockbuster).

The second point has to do with diversification. Cineplex is diversifying outside its core niche to offer an increasing number of entertainment offerings. The highly successful and growing number of Rec Room entertainment venues is a perfect example of this.

Rec Room locations offer a mix of live entertainment, food, and games to customers, all within an environment that can be configured to host anything from small gatherings to large hosted events.

Another key point worth mentioning is Cineplex's Digital Media segment. This side business venture is responsible for the growing number of digital menu screens that are appearing in fast-food restaurants in Canada and now internationally.

Following an agreement to provide digital menu boards to a leading chain in Latin America and the Caribbean, Cineplex announced a new deal earlier this month to provide digital screens to **AMC Theatres**, a U.S.-based peer of Cineplex that boasts a network of 630 locations across the U.S.

That media segment reported solid revenue gains of \$8.8 million in the most recent quarter, coming in at \$49.6 million.

Here's a final reason to consider Cineplex

One final point for investors to consider is Cineplex's dividend. The company offers a monthly distribution, which currently carries a very appetizing yield of 7.17%, handily making it a perfect addition to any income-focused portfolio.

In my opinion, Cineplex remains a solid option for those investors looking to [diversify with an income-producing stock](#). Buy it, hold it, and enjoy the show.

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