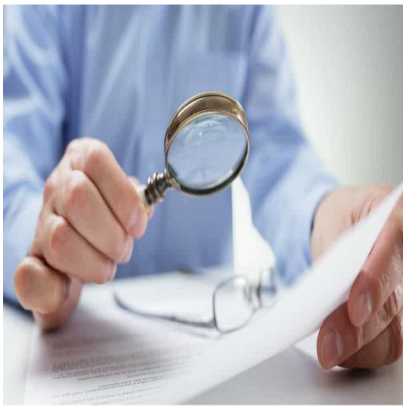

This Long-Time Canadian Industry Leader Is Being Grossly Undervalued by the Market

Description

Investing in companies that operate in mature industries is almost always something you want to avoid. Even if the stock seems like it's undervalued, or the dividend looks attractive, these are almost always just value traps.

The companies in these declining industries are most likely shrinking, and almost all investors will shun the stock, so even if it's undervalued today, that might be that stock's fair value tomorrow.

There are, however, some outlier companies, ones that, through great leadership and management, have been able to mitigate the effects of the declining industry they operate in and find other avenues of growth through diversification and strategic investments.

What's attractive about these stocks is that most of the market hasn't recognized the potential of their diversification efforts, and when the market finally acknowledges this, long-term investors that have held with patience will be rewarded.

One stock that isn't getting the love it should from the market is **Cineplex** (TSX:CGX).

Cineplex is known by most investors as the largest operator of movie theatres across Canada, an industry that has faced its fair share of headwinds over the past few years. In fact, Cineplex has roughly 75% of Canadian market share for movie theatres, so it's easily the largest theatre company in Canada.

It's clear in the numbers, though, that Cineplex had to do something different, its box office revenue growth essentially peaked in 2015, with 2016 up insignificantly and then 2017 and 2018 both seeing negative growth.

Cineplex, however, recognized this a while back, and in addition to strengthening its theatre business, it also began to diversify its operations, which it's starting to see the benefits of now.

The market hasn't responded accordingly, though, with its stock falling 50% the last three years to a level it hasn't traded at since 2011. The stock has come down way too far and now sits completely undervalued, especially considering the new growth potential Cineplex has built itself.

The strengthening of the theatre business can be seen by a steady increase of revenue per customer, even as total box office numbers fall. This implies that a lower overall number of customers are going to the movies, but Cineplex has offset this by increasing the amount it can get the customers to spend while there.

The diversification of the company's operations is what's going to be key for investors and the company to grow its revenue substantially.

For starters, Cineplex looked for areas that have synergies with its theatres business, such as e-sports and other amusement avenues. Both of these growth opportunities stem from businesses that Cineplex already had its foot in the door and experience in that industry.

Cineplex even took it a step further, buying a company that sells the video games. Player One Amusement is one of the top gaming and amusement companies in North America. The company supplies arcade equipment to Cineplex's theatres and Rec Room locations as well as other entertainment venues across the continent.

It has trailing 12-month sales of more than $180 million, making it a substantial part of Cineplex's business and bringing strong vertical integration into the mix.

Elsewhere, it worked to grow its media division. For years, Cineplex has had a great channel for advertisers to target specific users and get a known number of views. Cineplex has taken that a step further, growing its media business considerably to include locations in malls, banks, quick-service restaurants, and more.

Cineplex has done admirable work to improve the money it makes per customer at its theatres, but that alone wouldn't keep the company growing. Its impressive work to diversify the company's core business and find new growth areas is what will allow it to continue to grow alongside its maturing theatre business.

On top of all the potential it has, the company also pays investors an attractive dividend that currently yields roughly 7% while you wait.

The market has yet to recognize this, though, so an investment now could position you nicely, and when Cineplex comes on the radar of the rest of the market, you will be well rewarded.

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