Cineplex (TSX:CGX) Stock Explodes as the Entertainment Wars Go Nuclear

Description

If you own a substantial stake in Canadian cinema giant **Cineplex** (TSX:CGX), then congratulations, because you just hit the jackpot. Cineplex stock soared 41% Monday on the news that U.K. theatre owner **Cineworld** was going to buy the iconic Canadian business in a game-changing deal valued at around $2.1 billion.

Investors saw a blockbuster event in the making and hit the TSX *en masse*, causing Cineplex to rocket beyond all expectations. Last year saw Cineworld acquire Regal — a move that had already made the U.K. second only to AMC in terms of global movie exhibition. With new cost efficiencies and an enormous economic moat, the growing entertainment juggernaut could make content streamers rethink their strategy.

For investors bullish on the Canadian media giant, it seems all that patience and loyalty has paid off, despite worries that streaming could eat into theatre profit taking. Speaking of the deal, which will bring strong synergistic benefits, Cineworld's CEO Mooky Greidinger said, "Cineplex is a great business. It is the number one cinema operator in Canada and is well positioned for further growth."

With Cineworld taking snapping up Cineplex, the U.K. business becomes the largest cinema company in North America. The deal is set to be finalized in the first half of the new year. It's good news for investors, too. As Greidinger puts it: "By deploying our operational best practices, we expect the transaction to create compelling value for shareholders and to be strongly EPS and free cash flow accretive."

The streaming space could be explosive in 2020

Meanwhile, the battle for market dominance in the high-growth streaming space is heating up. While **Disney** has seen has seen steep early onboarding, its subscription service Disney+ arguably does not provide the same kind of mix and variety of programming as **Netflix**. More of a worry to the content streaming platform might be another FAANG favourite: **Amazon**.

Canadians forked over almost $800 million to market favourite Netflix in 2019 to date. This could change a little next year as the battle for subscriptions heats up, though. Not only will Netflix have to contend with the rising star of Disney+, but the Cineworld takeover will also introduce its movie subscription service, Unlimited, to the Canadian cinema experience, potentially increasing competition.

Perhaps that latter point might not matter too much to Netflix, though. In a company first, Netflix just revealed its geographical subscriber growth figures. What's particularly significant is that the streamer has been seeing steep growth beyond North American shores over the last couple of years. While the U.S. and Canada accounted for 67.1 million new members, international take-on was a massive 90 million.

The bottom line

At the end of the day, entertainment is a customer experience, an end point that combines technology with storytelling. While content streaming is likely to continue to be a growth industry, the social importance of cinema-going cannot be underestimated, as record box office takings have shown this year. As some of the biggest names in the industry take up positions, 2020 could see huge upside potential in this space.

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