Cineplex Inc (TSX:CGX): The End of an Era?

Description

One of the most rewarding moments for any investor is purchasing a stock that not only provides a handsome income, but can also be placed in a portfolio on autopilot for a decade or longer. Even better is when that investment attracts attention from vocal critics for the wrong reasons, making the long-term potential of that investment even more lucrative. But what about when that investment is scooped up by a larger company?

With that, allow me to talk a bit about the often-criticized **Cineplex** (TSX:CGX).

What you know, and what you don't know about Cineplex

Cineplex only gained a reputation as a controversial investment in the past few years. Prior to that, Canada's largest entertainment and movie theatre company was often regarded as a great long-term buy with a handsome dividend. So what exactly changed to alter the view of critics?

Part of the reason was the explosive demand for streaming services. In many cases, those streaming services cost less per month than one movie ticket. Equally troubling is the sheer number of devices that consumers can stream Hollywood blockbusters on. As a result, theatre attendance is slowly declining, leading many critics to see the traditional movie-and-popcorn model as a dying breed.

While those are all valid points, there is an answer to this argument. The movie-and-popcorn model isn't dying, it's evolving. Movie theatres will remain, but as more of a high-end viewing and niche experience, and it's up to Cineplex to push the envelope on defining that experience. The company did so several years ago when it added recliner chairs and full menu dining through its VIP service, and more recently Cineplex has turned to 4DX.

What 4DX theatres do is immerse the audience through various sensory points. The seats tilt, strategically placed fans replicate wind, and special devices replicate smells. In short, it's an intriguing (and expensive) option to consider. 4DX theatres aren't exactly new; they've existed in amusement park rides for nearly a decade, but are only now becoming more popular. That level of immersive experience is something that a mobile device, tablet, or Smart TV cannot replicate.

Outside of the theatre, Cineplex is innovating through additional revenue streams to offset declines in traffic. Prime examples include the company's booming Rec Room entertainment venue, as well as the highly successful digital media group that is responsible for installing the growing number of digital signs in fast food restaurants.

As impressive as that may sound, it may not matter much more for investors.

How does Cineplex stack up as an investment?

Perhaps the most significant update from Cineplex came late last year when the company announced that it had agreed to be acquired by **Cineworld Group**, forging the way to be part of one of the largest movie entertainment companies on the planet. Once the deal was announced, Cineplex's stock shot up over 30%, making it a great moment for existing shareholders to take profits, but not so much for potential investors.

Cineplex's mouth-watering monthly dividend, which carries a 5.31% yield, had been a strong incentive for would-be investors, but in the Cineworld announcement, Cineplex announced that dividend would cease after February 2020.

In short, Cineworld may introduce a capital injection into Cineplex and expose its business to larger markets, but at the moment, prospective investors of Cineplex would be better served looking elsewhere. Current investors may want to contemplate their exit strategy.

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