Alert: Cineplex (TSX:CGX) Could Be Acquired by This Incredibly Unlikely Source

Description

Investors might recall a few short months ago when **Cineplex** ([TSX:CGX](#)) made headlines after it agreed to be acquired by the U.K.-based theatre giant Cineworld.

The $2.1 billion, friendly deal was viewed as a big benefit to both parties. Cineworld would get to diversify into yet another market by purchasing assets that were already well established. After all, Cineplex owns an 80% market share in Canada.

The transaction was good for Cineplex shareholders, too. Cineplex shares had languished for years, as investors speculated [streaming services would slowly kill off traditional movie theatres](#). Despite generating significant free cash flow and paying a generous dividend, Cineplex shares just refused to recover. The only real upside came when Cineworld offered a nice premium.

Then COVID-19 happened, and the movie theatre industry was ravaged. There's no indication when theatres will be able to open in Canada, and many suspect even when theatres open, folks simply won't go.

Despite Cineworld maintaining its commitment to buy Cineplex, the market has a different opinion. Remember, Cineplex agreed to be acquired at $34 per share. As I type this, the stock trades at $14.44. There's no way the spread would be that wide, unless investors were writing off the acquisition completely.

Fortunately for beleaguered Cineplex shareholders, a new suitor could very well come along — one virtually nobody sees coming.

The future of movies

Although I think there's potential for a private equity group or some other deep-pocketed investor taking a run at Cineplex's cheap assets, there's a much more interesting suitor on the horizon.

That acquirer is **Amazon.com** ([NASDAQ:AMZN](#)).

I can already hear the naysayers scoffing. Why would a leading streaming company agree to buy a movie theatre chain?

There are a few different reasons why such a marriage would make sense. Owning a theatre would immediately give Amazon credibility with Hollywood studios — something that would undoubtedly give the company an advantage when negotiating streaming rights for big films.

It would also give Amazon an exclusive spot to air its original content. Yes, there are a lot of people who have an Amazon Prime account today who are already watching Amazon original programming. But many don't, and this move would give Amazon access to those customers. It's also a lot easier for the theatre to make a profit when it doesn't have to pay for some of its content.

Then there's the potential data Amazon could gather if it owned a theatre. It could easily use that to help its content division make better movies. If Amazon acquired Cineplex, it would also get access to the latter's army of more than 10 million SCENE members. There's got to be some valuable data there.

Finally, owning a chain of movie theatres would be an interesting perk to add to the numerous benefits of having a Prime membership. I see a future where Amazon could offer Prime members free admission to movies, making it up with sales from the concession and advertising.

The bottom line on a potential Amazon and Cineplex marriage

If Amazon did go into the theatre business, it would make sense for it to acquire Cineworld. After all, the company has assets in 11 different countries, including the United States and United Kingdom. Cineworld could then go ahead with its planned acquisition of Cineplex.

With Cineplex shares already [trading at a decade low](#), a potential Amazon acquisition is just another reason for value investors to consider adding shares to their portfolios.

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