A Holiday Wish for Cineplex (TSX:CGX) Investors

Description

Merry Christmas and happy holidays! Typically, the holiday season is a period for Hollywood blockbusters, but this year is different. COVID-19 is still present and disrupting many businesses, including **Cineplex** (TSX:CGX). Cineplex investors had it tougher than most in 2020, as the stock has tanked over 70%. Unfortunately, there's no Santa Rally to be seen here. Instead, let's look back at Cineplex's troubles and what the company is doing to return to profitability.

The blockbusters of Christmas past

The holiday season of 2019 had some of the largest blockbusters in years. Some examples include *Star Wars: The Rise of Skywalker*, *Frozen II*, *Jumanji 2: The Next Level*, and *Knives Out*. Those four movies alone grossed over US$52 million in one weekend at the box office, with just over 16,500 theatre screens dedicated to those movies.

Unfortunately, that's not the case this year. The global pandemic has meant that theatres have slowed or even halted production on the next batch of releases. In the case of Cineplex, the global closures also meant that theatres had to remain shut. A painful reminder for Cineplex investors was the second-quarter results from this past summer. The period covered the harshest closures to date, whereby the company welcomed only 6,000 patrons to its theatres. To illustrate how much of an impact COVID-19 had, in the same quarter last year, Cineplex welcomed 17 million customers.

Fortunately, the third quarter came in a little better. Theatre attendance jumped to 1.7 million, while revenue topped $61.2 million. What can Cineplex do to stop the bleeding *now* and plan for the future? Those results also led to Cineplex suspending its once impressive monthly dividend earlier this year.

Cineplex investors in the present

While studios have delayed some releases, they haven't done that to all of them. Theatres are still open in some global markets in a limited capacity. In the U.S. market, studios are turning towards online streaming options in lieu of traditional theatrical releases. A perfect example is *Wonder Woman 1984*

; the movie will be available to U.S. subscribers starting today on HBO Max. For us in Canada, *Wonder Woman* will drop onto Crave for existing subscribers sometime in 2021.

Unfortunately, this means that Cineplex will lose out on that revenue potential. Even worse — this could be another nail in the traditional movie-and-popcorn business model that Cineplex relies on. That traditional model is under increasing threat from an increasing number of streaming services. Streaming services offer a library of movies available for a monthly fee that costs less than a single theatre admission. Adding to those woes is the endless number of newer devices being released that can stream content.

To be fair, Cineplex was innovating. The company established its VIP movie experience, which elevated the in-theatre experience to new levels. Cineplex also had a winner in its live entertainment Rec Room concept. Another notable development is Cineplex's digital sign business. The segment is responsible for the placement of digital menu boards in fast-food restaurants both in Canada and abroad.

What the future holds for Cineplex

Cineplex's revenue is still mostly tied to the movie-and-popcorn model. Unfortunately, that business seems unlikely to stage a full recovery anytime soon. Vaccinating everyone and the easing of social-distancing guidelines could still be a year or more out. Even then, some customers may be reluctant to return to an enclosed space, at least initially.

So, where does this leave investors? Prospective investors would be better suited looking at other stocks, many of which still provide handsome dividends. Current Cineplex investors with long-term timelines may be better suited holding on for that eventual recovery.

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