



What's Next for Cineplex (TSX:CGX)?

Description

All businesses have been forced to adapt since the pandemic began. Unfortunately, **Cineplex** ([TSX:CGX](#)) is one company that has struggled a lot more than others. For Canada's largest entertainment company to remain profitable, it needs to attract droves of customers into its theatres. Given the ongoing pandemic, that seems unlikely to happen anytime soon. This begs the question of what's next for Cineplex investors?

A growing list of problems

As dire as it may seem to Cineplex investors at the moment, the underlying problem at Cineplex has been brewing for some time. In the pre-pandemic world, Cineplex derived most of its revenue from its theatre business. This not only includes admission costs but also concession sales as well as special events. This slowed to a small trickle once the pandemic forced theatres to close last year.

By example, in the second quarter, Cineplex welcomed just 6,000 customers into its theatres. In Q3, this increased to 1.5 million customers, reflecting the gradual reopening of theatres. By way of comparison, in the same two quarters of 2019, Cineplex saw an attendance of 17 million and 17.5 million customers, respectively. Ouch.

As bad as that might sound, the pandemic isn't the only issue that is forcing Cineplex to change. The rapid expansion of streaming services that have entire libraries of content is eating into theatre attendance. In short, customers can get a month of unlimited streaming for less than the cost of a single admission ticket. Throw in the growing number of devices that support streaming options, and there really is no competition.

To be blunt, the legacy movie-and-popcorn was evolving well before the pandemic. So what's next for Cineplex, and by extension, Cineplex investors?

Cineplex needs to survive, then innovate

Prior to the pandemic, Cineplex was expanding well beyond the traditional movie-and-popcorn business. Specifically, both the digital media business and Rec Room entertainment venues remain promising (and profitable) ventures for a post-pandemic world.

The digital media segment installs digital menu signs in fast food establishments. The segment has had some success with both local and international businesses. The Rec Room is a selection of large multi-configuration venues that offer games, music, and dining options. The growing list of Rec Room locations can host anything from small gatherings to large catered events.

That same level of innovation can arguably be found within Cineplex's theatres. Those developments include the popular VIP offering, as well as the recently announced private movie nights. For those that are unfamiliar with those offerings, Cineplex VIP service includes larger recliner-style seating with full-menu ordering. Private movie nights allow up to 20 guests to schedule a private viewing of certain films.

What's next for Cineplex — and you?

When the pandemic began, Cineplex was already well into a long multi-year transformation. The company's need to diversify outside of its traditional business still remains, despite the ongoing pandemic. Unfortunately, those initiatives are still largely based on large gatherings of people in confined areas. To put it another way, herd immunity still likely a year or more out. We could still see a few more painful quarters from Cineplex.

So then what's next for Cineplex, and should you invest? In my opinion, unless you're already invested in Cineplex and can hold for the eventual recovery, there are [far better options to consider](#). Many of those options also [offer a handsome dividend](#), which is something Cineplex was forced to suspend.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Date

2025/07/22

Date Created

2021/02/15

Author

dafxentiou

default watermark

default watermark