Could WandaVision Help a Cineplex (TSX:CGX) Recovery?

Description

2020 was a dismal year for **Cineplex** (TSX:CGX), and 2021 is not looking to be any better. As Canada's largest entertainment company, Cineplex still derives most of its revenue from its traditional movie-and-popcorn model. Most theatres still remain closed or now operate at a reduced capacity. This means the upcoming summer blockbuster season could again be underwhelming. This includes the impact of much-anticipated MCU blockbusters like *Black Widow*, given the success of the ongoing *WandaVision* series. Here's why you might be better served looking elsewhere for long-term gains.

Cineplex has a lot of problems

Unlike *WandaVision,* where some CGI effects and cameos made the weekly series incredibly popular, Cineplex lacks sufficient vision (pun intended). Despite its advantageous market position, Cineplex has been losing ground for years. Efforts at both diversifying and augmenting its revenue stream have been ambitious but slow to gain traction.

Prior to the pandemic, the main driver behind that drop was the availability of streaming services. Those services offer massive collections of content. More importantly, those shows can be viewed on any capable device. Finally, and perhaps best of all, those services are offered for less than the price of a single movie admission.

Some of those initiatives, such as the VIP viewing service and the Rec Room, are wildly popular concepts. Unfortunately, they are still reliant on gatherings of people in enclosed areas. This is a non-starter in the era of the COVID-19 pandemic. To be clear, once the pandemic gets under control, Cineplex will see growth potential from those initiatives. This is particularly true for the Rec Room, where Cineplex was investing heavily into expanding prior to the pandemic.

To put into context the extent of Cineplex's woes, let's compare some pre-pandemic numbers with their current equivalents. Over the course of fiscal 2019, Cineplex saw revenue hit $1.66 billion. During fiscal 2020, Cineplex saw revenue dip nearly 75% to just $448 million. Theatre attendance numbers showcase an ever graver gap. During fiscal 2019, Cineplex welcomed 66 million customers into its venues. Turning to fiscal 2020, those numbers dropped over 80% to just 13 million. Keep in mind that those customers also purchase concessions, which means the attendance drop snowballs to other areas.

Can Cineplex innovate?

Keeping with my *WandaVision* comparison, Cineplex *is* innovating itself, and doing so quicker than one decade at a time. The VIP service I mentioned above, which includes recliner-style seats and full menu ordering, is a unique offering. This provides significantly more value for a higher price point, which could justify going to the theatres in a post-pandemic world.

The same can be said of a recent pandemic-inspired offering, private movie nights. This new service allows groups of up to 20 customers to receive a theatre for viewing at a flat rate, which can sometimes include concessions. Considering the alternative of having an empty theatre that isn't generating revenue, the idea is sheer brilliance. Unfortunately, it may be another quarter or more until we can see the impact on Cineplex's bottom line, if any.

What should you do?

In a post-pandemic world, Cineplex has potential. The company has the right ideas to diversify itself, as well as both the need and desire to pursue those changes. Unfortunately, the pandemic put the brakes on those plans. Cineplex has already laid off many of its workers, shuttered theatres, and suspended its once-lucrative monthly dividend. Depending on how long the pandemic rages on, Cineplex could see further harsh cuts in 2021.

In my opinion, there are far better options for investors to consider at this point, many of which still offer dividends.

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