



Will Summer Blockbusters Save Cineplex (TSX:CGX)?

Description

The COVID-19 pandemic had an impact on all businesses in various ways. Among the most impacted businesses were movie theatres. **Cineplex** ([TSX:CGX](#)) is the largest movie theatre chain in Canada and bore the brunt of that impact on its business. But now that theatres are beginning to open, will the upcoming summer blockbusters save Cineplex?

Cineplex needs a *lot* of help

While the focus has been on surviving the pandemic, Cineplex's issues stem from far before COVID-19 forced theatres to close. Specifically, I'm referring to the rapid and continual adoption of streaming services. In short, streaming customers can now stream Hollywood blockbusters to their devices, smart TVs, and tablets. Keep in mind that a month of unlimited streaming costs less than a single movie theatre admission.

This effectively removes the exclusivity appeal that large theatre chains such as Cineplex once counted on as a defensive moat. If that wasn't enough to worry about, Cineplex has two other streaming-related concerns to worry about.

First, there are many more streaming services on the market today than even pre-pandemic. Those streaming providers are seeking out unique and fresh content to draw customers to their platform (and off traditional means). This leads me to the second point – both streaming companies and various Hollywood studios have seen the potential of that model. In short, there are streaming companies that are now creating their own content, and studios launching their own streaming services.

Unfortunately for Cineplex, both of those endeavours will tend to bypass the big-screen altogether.

What about summer blockbusters?

Now that the summer season is in full swing and COVID-19 rates are dropping, studios are once again releasing movies. For those investors that see a Cineplex recovery as beginning to take form, this is

good news. Unfortunately, those summer blockbusters will save Cineplex remains to be seen.

Many of those big-ticket movies will be released concurrently to theatres and streaming services. Prime examples of this include *Space Jam: A New Legacy*, *Black Widow*, *Cruella*, *Dune*, *the Suicide Squad*, and *No Time to Die*. If that weren't enough, depending on the streaming platform, some of those movies could be free to subscribers.

This leaves Cineplex in a very questionable position. Yes, there will be customers returning to watch the best movies on the Big Screen. But there will also be a contingent of would-be customers that will stream the latest from the comfort of their homes.

The only sure thing is that Cineplex's once defensive appeal has eroded almost entirely. The company's transition away from the movie-and-popcorn model as its primary revenue driver will also need to resume.

Should you buy Cineplex?

There are those investors who see Cineplex as an [undervalued long-term opportunity](#). Many of those investors also see a point where Cineplex will resume its once-lucrative [monthly dividend](#). Unfortunately, I don't see either happening anytime soon.

In my opinion, Cineplex will recover from its current predicament, but to attain the profitability it once had will take a much longer time. The fact that theatres are reopening is great, but not everyone will want to run back into tightly packed enclosed theatres.

In other words, at this point, there are [far better options to consider](#) instead of Cineplex. Many of those options also continue to provide a handsome dividend, which is an important point for long-term income investors.

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