Why the Cineplex (TSX:CGX) Recovery Isn’t Happening Yet

Description

There are few stocks on the market today that invoke such a spirited debate as **Cineplex** (TSX:CGX). As Canada’s largest entertainment company, Cineplex does have plenty to offer investors, but are those screens still a recipe for success? Will we see that long-awaited Cineplex recovery anytime soon?

Let’s try to answer those questions.

A Cineplex recovery entails many problems but few quick solutions

The troubles that continue to plague Cineplex started well before COVID-19. Just a few years ago, Cineplex was a great long-term investment option with a great monthly dividend. But then, something happened.

The rapid appeal and growth of streaming services quickly chewed into Cineplex’s earnings. Looking at it objectively, one can see why. The movie-and-popcorn business remains unchanged after nearly a century. Pay an admission fee to watch something you can’t see anywhere else and then buy some concessions for the show too. It’s a simple model that has proven successful, but customer tastes have evolved.

The days of seeing prolonged exclusivity and limited release windows in theatres are over. We’re seeing a greater number of studios release content directly to streaming services. Unlike the direct-to-DVD model this replaced, these new films boast big budgets, A-list actors, and dedicated marketing dollars.

Let's also talk about seating, convenience, and concessions. Your couch at home will always be more comfortable than a seat in a large room full of strangers. It is also infinitely more convenient to stream something from home rather than getting up and going out. The same applies to concessions, which at home will always be in stock, and exactly what you want.

Finally, let's talk cost. The cost of a family of four going to the theatre to watch a movie, complete with concessions is now well over $100 in some areas. If you contrast that to streaming a movie at home complemented with snacks that are already in the pantry, it's an easy decision.

Perhaps most worrisome is that these were all concerns *prior* to COVID. This makes any recovery more difficult. It also raises concerns outside of Cineplex's control. An example of this is the personal comfort level of people. After over a year of isolation, some people may not be ready or want to venture into a theatre.

Is it all doom and gloom for Cineplex?

Don't get me wrong: I *do* think that a Cineplex recovery is coming, but I don't believe Cineplex will return to its glory days of offering a juicy monthly dividend. What Cineplex will need to do is continue to do what it has done well on even before the pandemic: innovate, and diversify its revenue stream.

To further that point, Cineplex has several promising ventures that can and will provide a growing and different revenue stream in future years. One of those is the Rec Room. The multi-configurable entertainment venues remain wildly popular and could become a major revenue driver for the company. Prior to the onset of COVID-19, Cineplex was planning on building out additional Rec Room sites across the country. Expect that to resume once a sense of normalcy returns.

There are also innovations within Cineplex's theatre business to look at. Specifically, reserved, well-spaced out seating has proven to be successful, as has the company's VIP service. More recently, Cineplex began the practice of renting out entire screens for private viewing parties. All of these initiatives have potential, but none are the silver bullet the company needs.

Should you buy?

Cineplex is an intriguing stock, but in my opinion, Cineplex is too laden with risk at the moment. There are far better options on the market right now, many of which still offer an attractive dividend. Unless you are already invested in Cineplex and plan to hold for that recovery, look elsewhere.

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dafxentiou