ALERT: This Move Could Save Cineplex!

Description

The movie theatre industry had reason for optimism coming into the summer of 2021. Canada managed to catch up to its top peers with an aggressive vaccine rollout. This was good news for **Cineplex** (TSX:CGX), the largest movie theatre operator in Canada. Unfortunately, cinemas still had to wait until the middle of July before Ontario moved forward with the third stage of its reopening.

Box office returns have left the industry wanting this summer. However, Marvel's new release *Shang-Chi and the Legend of the Ten Rings* has been a surprise hit in September. Indeed, it managed to break Labour Day weekend records. It has grossed over US$150 million at the North American box office. **Disney**, which owns the Marvel property, is no stranger to box office dominance. It has toyed with double releases this year. The company has released new films at the movie theatre and on its streaming platform Disney Plus.

Today, I want to discuss how Disney's latest move could give a massive boost to Cineplex and its global peers.

Has Disney just saved the movie theatre industry?

Disney's embrace of simultaneous new movie releases on its streaming platform shook the traditional cinema. Streaming platforms like **Netflix** had already pulled away cinema consumers over the past decade. There were fears that this strategy from Disney and other media giants could deal a mortal blow to the prospects for the traditional cinema.

On September 10, Disney announced that the remainder of its 2021 film releases would debut exclusively in theatres. Movies will play out in theatres for a minimum of a month before being made available on Disney Plus. The huge success of *Shang-Chi and the Legend of the Ten Rings* has likely influenced this decision. Cineplex and its peers should celebrate Disney's decision, which may signal a return to normal for the struggling industry.

Should you look to snatch up Cineplex stock in the fall of 2021?

Shares of Cineplex have climbed 54% in 2021 as of close on September 16. However, the stock has dropped 5.9% over the past six months. Back in June, I'd discussed why investors should look to snatch up Cineplex stock ahead of the summer. Still, I was unprepared for the roller coaster of changes the company has been subjected to.

In Q2 2021, Cineplex delivered total revenue growth of 195% to $64.9 million. This was largely due to the shutdown of its operations in the previous year due to the COVID-19 pandemic. Theatre attendance rose to 1.1 million compared to no attendance in the second quarter of 2020. Meanwhile, box office revenues per patron jumped 142% to $10.89/patron.

Cineplex managed to gather momentum in 2021, but the stock is still down significantly from its price before the pandemic began. Moreover, investors can no longer rely on its previously tasty monthly dividend payment. Management will need to see a big uptick in activity and some stabilization in the sector before it moves to consistently reward its shareholders again.

The stock does not offer great value right now, and it is still facing a dangerous cash situation. Still, this move by Disney is very encouraging for the broader industry. I'm still content to remain on the sidelines, but Cineplex is worth monitoring in the months ahead.

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