Cineplex (TSX:CGX) May Have Something in Store Post-COVID

Description

It's hard to imagine a segment of the market that has been hit harder during the pandemic than the movie theatre business. **Cineplex** (TSX:CGX), which is Canada's largest entertainment and movie theatre operator, has endured so far, but can it return to a period of profitability post-COVID?

Cineplex has many (more) problems

The movie-and-popcorn business was in trouble far before the pandemic began. That business model has barely changed in over a century, unlike the world around the theatre. Specifically, both the exclusivity of and the overall experience of the theatre haven't kept up with the world around it.

The proliferation of streaming-capable devices allows us to watch entire content libraries from any location we want. This includes the one location that Cineplex or any other business cannot compete with on a comfort level –your living room couch.

There's also the exclusivity of the theatre experience that has diminished. Smaller release windows and streaming services have reduced that demand somewhat. It also doesn't help that many streaming providers now have their own well-funded studios churning out exclusive (not in theatres) content. Even worse, those studios are attracting A-list talent, which draws attention to those platforms.

Those aren't the only problems Cineplex has. As we've already seen in recent months, even a bevy of new, highly anticipated content will not fill theatres. Post-COVID, many customers are still wary about sitting in an enclosed area with strangers for a few hours. That comfort level will take time to return.

For investors, there's also the dividend question. Few, if any will question Cineplex's decision to halt its dividend last year when the pandemic began. But as theatres reopen and those customers do return, there will be pressure to reinstate that dividend in some capacity.

What does Cineplex have in store?

Apart from weathering the pandemic, there's little that Cineplex can do to offset the losses sustained during the past year. The company can (and has) altered its capacity within theatres, but there's only so much that can be done.

This builds on top of other initiatives announced during the past few years, such as online ordering and concession delivery. Cineplex even offers its own subscription-based on-demand content streaming service.

Outside of its core theatre business, Cineplex's other primary revenue driver — the Rec Room — is also centered on individuals gathering in enclosed space. In other words, the much anticipated (and direly needed) growth of the Rec Room business won't happen until the pandemic is truly over either.

In the interim, all that investors (and in some ways, Cineplex) can do is sit back and wait. For prospective investors, this raises an all-important question.

Should you buy Cineplex now, post-COVID, or ever?

Cineplex is a unique investment. On one hand, the company's over-reliance on the movie and popcorn business is risky. New streaming services are launching all the time, and a growing number of those services have studios offering exclusive content.

That puts Cineplex in unfamiliar and very risky territory. Yes, customers will return to theatres, but not immediately, and not in the droves that the company needs to turn around. In my opinion, Cineplex, despite its highly discounted stock price, remains a risky investment. There are far better options to consider, many of which have defensive appeal and offer handsome dividends.

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