



Cineplex (TSX:CGX) Needs More Than Superhero Movies!

Description

This was a very interesting weekend. Not only did it usher in the unofficial start of the end-of-year panic for holiday shoppers (and [investors](#)), but it also saw theatres release another long-awaited blockbuster. This time, it was *The Eternals*, the latest in a string of superhero movies.

The highly anticipated superhero movie comes at a time when theatres are gradually reopening in markets around both the U.S. and Canada. This latest release follows other highly anticipated releases in the past two months, such as *Shang Chi and the Legend of the Ten Rings* and *Venom: Let there be Carnage*.

The trio of Marvel blockbuster superhero movies represents some of the most anticipated films since the pandemic started. This also represents a unique opportunity for customers to return to theatres. Perhaps more importantly, this represents a moment for the theatre business to return to some sense of normalcy.

If customers can return to theatres, it could be huge for Cineplex investors. Those investors have been banking on the stock to recover for months. But will those efforts work?

Cineplex has problems that are bigger than you think

At first glance, the box office numbers look impressive. *The Eternals* is on track for a US\$71 million opening at the box office. (That's across theatres in both Canada and the U.S.). The same could be said for both the latest *Venom* movie (US\$95 million across 4200 theatres), and *Shang Chi*, which was released last month (US\$75 million across 4,300 theatres).

Contrast this to last year's box office take of just US\$10 million (encompassing all movies) and you can see that return to normalcy taking shape. This is also why some investors are taking a glass-half-full approach to Cineplex stock, which has already surged 180% in the trailing 12 months.

Here's the underlying problem with that view. The movie-and-popcorn business has remained relatively unchanged for well over a century. In short, that model sees the theatre charge admission to patrons,

who can then watch an exclusive show and purchase concessions.

The advent of streaming services has changed that view.

Streaming services have eroded what exclusive content is. Many of those streaming services now have their own studio budgets and are releasing content straight to streaming. This complicates Cineplex's recovery further. Prospective would-be patrons are now streaming their favourite blockbusters from a growing number of devices rather than venturing back into a theatre.

The decision to go into a theatre and sit down in an enclosed space with strangers after over a year of social distancing can be a stressful one. Some people may not feel ready to return to theatres yet, even if it is for their favourite superhero movies.

What can Cineplex do?

Merely saying Cineplex will recover isn't going to cut it. The pandemic may have shuttered theatres, but it also provided the catalyst for patrons to jump into streaming. In order for Cineplex to recover, it needs to offer something *unique* to draw patrons back into theatres. We saw a similar movement years ago when Cineplex launched its VIP service as well as its stake in eGaming.

Longer term, the more viable solution is for Cineplex to diversify itself away from overreliance on the movie-and-popcorn business altogether.

This is the better overall path for Cineplex to follow. Fortunately, this was the path Cineplex was pursuing pre-pandemic. Among several different initiatives, Cineplex was rapidly building out one area in particular: its network of Rec Rooms. That's the name given to the unique multi-configurable venues suited for gaming, dining, and entertainment.

If Cineplex can continue to build its Rec Room concept to other parts of the country, it will be a core revenue builder. Only then, coupled with sustained box office revenues, will we see a full recovery.

In my opinion, that recovery is still far off, and not even more superhero movies can bridge that revenue gap. Until then, there are [far better options](#) on the market to invest in, many of which still offer the tasty dividend Cineplex once did.

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