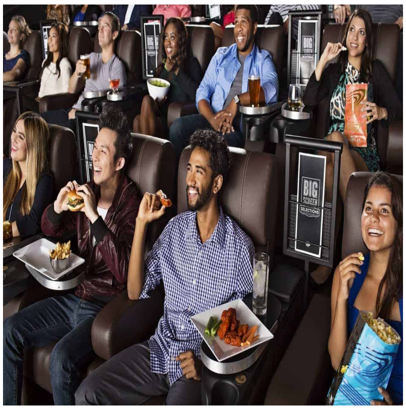

Income Investors: Cineplex Inc. Is a Dividend-Growth King

Description

Cineplex Inc. (TSX:CGX) is in the simple business of movies and popcorn. This business has been around for a very long time. The company is the largest motion-picture exhibitor in Canada with 162 theatres and 1,659 screens. The company pays a very attractive 3.06% dividend yield and has been taking on innovative growth initiatives to reward long-term holders of the stock with generous dividend raises.

Cineplex has a very impressive history of dividend raises over the past decade. There's no question the dividend is as stable as they come. The movie theatre business is considered consumer cyclical, but it can be considered a defensive holding. The stock recovered quickly after the Great Recession and was able to keep its dividend intact. Movies are relatively cheap experiences that provide a lot of joy to movie-goers, so even if the economy did turn sideways, people would still buy tickets.

How has Cineplex been able to increase its dividend in the long run?

The company is introducing innovative new ways to sell tickets and food to its customers. The VIP experience was a great success; it allowed movie-goers to pay a bit more for a large recliner chair and the ability to order dinner from the comfort of their seats.

The company has also been experimenting with 4DX movies, which combines the motion seat effects of DBOX with environmental effects like rain, wind, or smells. A 4DX movie commands a higher price than a normal movie and could provide a huge boost to the company's top and bottom line once the new technology is rolled out across its existing theatres.

There's no question that a large amount of re-investment will be needed to roll out such a change into its existing theatres. Cineplex will need to wait for more feedback from its one and only 4DX cinema located in Toronto. If reviews are promising, then we could see a slow roll-out across the country in the same way VIP cinema was rolled out.

What about valuation?

The stock is definitely not cheap with a 25.24 price-to-earnings multiple. The price-to-book multiple is also quite pricey at 4.5, which is higher than the company's five-year historical average multiple of 3.6. You're paying a premium for the stable dividend as well as dividend growth at current levels.

The dividend yield is also on the low side when compared to historical averages. The dividend is 0.35% lower than its average value of 3.4%.

The stock is terrific for an income investor seeking long-term capital gains and regular dividend hikes, but I think it's a bit too expensive right now. I would wait on the sidelines for any sign of weakness before picking up shares.

CATEGORY

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Date
2025/07/05
Date Created
2017/01/17
Author
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