Dinner and a Movie: 1 Stock Is Hot. 1 Is Not

Description

In 10 years, will the phrase “dinner and a movie” be morphed into “**Netflix** and an Uber eats?” Despite the changing landscape in both entertainment and restaurant spaces, people are still going to want to eat out, and they will stroll around until they find a theatre for something fun to watch.

Cineplex is Canada’s largest cinema company

Seventy-five million guests frequent **Cineplex Inc.** (TSX:CGX) each year at one of 164 theatres across the country. By the numbers, Cineplex has had two bad quarters as far as margins are concerned. Return on equity (ROE) has been dropping since September 2016. Investors headed for the doors on three occasions in July and August, and the stock price has been hit hard.

The 52-week high for this stock was just shy of $55, and the stock has dropped 33% in two months. A key test for this stock is whether it holds up around the $33-per-share level, which would be a historical support level. Below that price is a free fall down into the mid-20s, during which time the dividend yield will be fattening up and undoubtedly leaving the executives with some tough decisions to make.

What might be happening is the rightful correction that was overdue for this stock. Cineplex has had a lofty multiple (price-to-earnings ratio, P/E) for some time; with the price drop, the forward P/E ratio is looking more attractive now.

There is a bit of a silver lining for Cineplex. First, this company is used to cycles. Cineplex has feasted in previous years when blockbuster movies hit the big screen and sent earnings soaring high. Think *Star Wars*. We now seem to be in a famine. Second, Cineplex bounced back remarkably well during the Financial Crisis of 2008/09. The company knows how to weather a storm. Third, the debt-to-equity ratio has moved up to 0.75, but the company is still not overly leveraged.

So, what about dinner?

Restaurant stocks have also come on hard times in the last year. Online ordering and home delivery are dizzying new elements to the food and restaurant businesses. It is tough because restaurants are typically low-margin businesses, and add-ons cut into profits.

One company that has done extraordinarily well is **MTY Food Group Inc.** (TSX:MTY); it is a small-cap stock valued at $1 billion and operates as a franchisor of quick-service restaurants. You may recognize some of the 29 franchises: Cultures, TuTTi FRUTTi, Country style, Croissant Plus, JUGO JUICE, TCBY Canada, Thai Express, and Yogen fruz.

Business continues to look good for this company, with revenue continuing to climb and a price-to-sales ratio, which has dropped recently due to the stock value pulling back from a high in March. Unlike Cineplex, ROE is high around 22%. An ROE in the teens or higher is impressive. Earnings continue to climb, which explains why this stock can still be considered a growth stock.

A Foolish investor would be wise to make a date with MTY Food Group. And you may want to hold off on the movie for the time being.

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bmacintosh