Cineplex Inc.: Buy the Dip and Earn That Yield

Description

A stock giving up over 32% over the duration of nearly two months is likely to spring some interest. If the stock deserves to drop, investors who own it wonder if they should sell. And if the stock doesn't deserve it, investors that don't own it — and perhaps those that do — question if they should be buying shares.

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Many times, the different between a mediocre portfolio and a great one is the conviction to invest when others are running away. And I believe that time exists right now with **Cineplex Inc.** (TSX:CGX). Between the beginning and the end of August, Cineplex gave up nearly 30%. Even now, even after experiencing some appreciation, the stock remains 28% below where it was in the beginning of July.

But what happened to make the company experience such a harsh drop?

Cineplex had a bad second quarter. Although total revenue was up to $364.1 million from $338 million a year prior, net income was down 80.9% to $1.4 million. Its adjusted free cash flow was also down from $25.6 million to $18 million, which is always a little concerning, because Cineplex pays an ever-growing dividend.

If we dive in deeper, we can see where the problems were.

First, the media division was weak with a total reduction in revenue of 9% to $36.6 million. Cineplex blamed a decline in cinema advertising and "lower digital signage installation revenue."

Second, attendance was actually down for the quarter by 2.2%. And, frankly, that makes sense. The top five movies in the second quarter were *Guardians of the Galaxy Vol. 2*, *Wonder Woman*, *The Fate of the Furious*, *Beauty and the Beast*, and *Pirates of the Caribbean*. In Q2 2016, the top movies were *Capital America: Civil War*, *The Jungle Book*, *Finding Dory*, *X-Men: Apocalypse*, and *Batman v. Superman.*

This demonstrates one of the problems that Cineplex has that, unfortunately, isn't going away anytime soon. If the lineup of movies is weaker in any given quarter, it could have an impact on just how much revenue the company can make.

Fortunately, Cineplex is working on fixing this problem by diversifying into other entertainment avenues. The first is The Rec Room, which has added $3.632 million in amusement revenue and $4.092 million in food revenue year to date. It's not massive sums of money, but as it rolls out other Rec Rooms, I expect to see this revenue increase. The best part? This doesn't depend on a movie for people to come and pay.

The other initiative is a recent joint venture launched with Topgolf. This is a similar idea as the Rec Room. As fellow Fool writer Will Ashworth wrote, "Topgolf is the bowling alley of the 21st century, only with better food and drinks." And with 26,000 visitors at Topgolf destinations every day with the average stay of two hours, there's real potential for Cineplex to generate even more revenue from this joint venture.

There's no denying that Cineplex needed to cool down a little, especially with how weak the second-quarter movies were. However, with the company now yielding 4.4% and paying monthly, this stock is a no-brainer to me. With its near monopoly on movies and its expansion into other entertainment vehicles, I believe this dip, and any future ones, is a great time to buy.

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