Being Greedy When Others Are Fearful: Time to Head to Movie Stocks

Description

One of Warren Buffett's famous quotes is, "…be fearful when others are greedy and be greedy when others are fearful."

Well, a slow summer at the box office appears to have cast doubt on many investors' feelings towards movie-related stocks.

Some of the more notable names that have been caught up in the latest sell-off include **Regal Entertainment Group** (NYSE:RGC), down 29% since May, **AMC Entertainment Holdings Inc.** (NYSE:AMC), down more than 60% since may, and Canada's own **Cineplex Inc.** (TSX:CGX), down 30% since July.

Weakness in this year's summer box office has mostly been attributed to "sequel fatigue"; a lack of original titles failed to capture the interest of movie-goers.

While sequels featuring re-hashed story lines may be tiring audiences, the ebbs and flows of Hollywood's successes and failures are nothing new either.

Some quarters, and even some years, including this one, will be worse than others, yet at the end of the day, going to the movies is a tried-and-true cultural tradition that has stood the test of time and even endured weak economies.

Thankfully for investors, the recent box office weakness has created an ample buying opportunity for those that are still on the sidelines.

AMC is the largest movie theatre operator in the United States, holding a significant presence in over 50 key American markets, including a number one or two share in each of the top 15 U.S. markets and holding claim to 22 of the top 50 highest-grossing theatres in the U.S.

AMC recently made a splash, acquiring budget theatre chain Carmike Theatres in 2016 and Nordic Cinema Group, a move that sees the company pivot towards European markets, which it feels are underpenetrated, offering opportunity.

AMC is also undergoing an aggressive plan to refurbish its Legacy AMC theatres with plush reclining chairs. The move has proven to be a winner thus far with recently refurbished theatres showing vastly improved attendance numbers and cash flows.

Yet the acquisitions and theatre makeover come at a cost, and the company's US$4.2 debt burden has investors noticeably shaken given recent results, which is largely why declines in AMC's share price have been exaggerated versus peers Regal and Cineplex.

Risk takers may like the trade-off that AMC shares offer given the extent of the sell-off. On top of the opportunity to turn a profitable trade, AMC shares offer a dividend yielding north of 6%.

Yet given the company's debt burden and dangerous payout ratio, and the dividend is not exactly safe.

Dividend investors opting for a more conservative route to profits may favour Cineplex in that regard.

While Cineplex's payout ratio is no picnic either, the company has demonstrated a commitment to its dividend in the past, with rate hikes in nine of the past 10 years, including a 3.7% hike this year.

Bottom line

History suggests that people are not going to suddenly stop going to the movies, meaning that the recent weakness is probably nothing more than a blip on the radar.

Foolish investors may be wise to pick up on the opportunity to make a quick buck, hopefully in time to buy a few tickets to the next *Star Wars* movie, which is slated to debut in the fourth quarter.

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