Income Investors: Is Cineplex Inc. a Buy After its Recent Correction?

Description

After **Cineplex Inc.** (TSX:CGX) shares tumbled ~33% from peak-to-trough, many income investors may be wondering if now's an opportune time to back up the truck on a solid dividend stock whose yield is a whole percentage point higher than it normally is.

For those following Cineplex and movie-theatre businesses closely over the past year, the writing was on the wall and the probability of a correction was high. It appears that the bleeding has stopped, for now, however, those looking for a quick rebound may be left waiting longer than they originally anticipated.

In many previous articles, I warned investors that the valuations didn't make sense, especially considering the numerous headwinds that would likely get the better of the company over the near and long term. The stock is now down ~25% since my initial recommendation to avoid the stock, but now that shares have corrected, is it now safe to own shares of this entertainment king that has pledged to reinvent itself and diversify from the old-fashioned movie and popcorn business?

There's no question that the box office dry-up exacerbated the longer-term issues that the movie theatre industry was facing. Should blockbuster movies become few and far between, the entire industry is vulnerable, and Cineplex is no exception. I believe the blockbuster dry-up is a temporary issue and firms like **Walt Disney Company** will stop the bleeding as it delivers more must-see titles to theatres near you.

At this point, I believe the correction is overdone and shares could be ripe for a pop as *Star Wars: The Last Jedi* and *Coco* provides a meaningful boost to Cineplex's quarterly results which will be reported early next year. Treat it as a late Christmas gift from Disney!

While holiday blockbusters will provide Cineplex shares with some relief over the short-term, I still believe rebound hunters are better off looking elsewhere if they don't have a time horizon of at least three years. Cineplex is focused on further diversifying away from box office and concession and into general entertainment (Topgolf, Playdium, etc.).

I expect the company will continue to be active when it comes to acquisitions; however, I do not expect its efforts will pay off until later next year.

For now, Cineplex's fate will be in the hands of movie producers, but thanks mainly to Disney's recent hits, in the near term that's a good thing!

After the recent correction, I believe income investors have an opportunity to buy the solid dividend payer that's making moves to reinvigorate growth and diversify away from the no-growth industry of movies and popcorn.

At a trailing 37.6 price-to-earnings, the stock still has future growth baked in, so I'd only recommend picking up shares if you're confident in Cineplex's new growth trajectory.

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joefrenette