TFSA Income Investors: Cineplex Inc. Now Has a Mouth-Watering ~5% Dividend Yield!

Description

Cineplex Inc. (TSX:CGX) shares plunged 5.68% to hit a new 52-week low on Tuesday. It now looks like a dead cat's bounce could be on the horizon as shares begin to garner negative momentum. Should income investors bother trying to catch this falling knife as the dividend yield crosses the 5% mark? Or will the peak-to-trough losses further steepen?

I've noted many times last year that Cineplex was facing many headwinds that would likely mean trouble for shares, which were absurdly overvalued at the time. Fast-forward to today and shares are down ~36% from their peak, with the yield jumping to the highest level it's ever been.

On a price-to-earnings basis, Cineplex shares are still absurdly expensive at 33.28 times trailing earnings. That's clearly a multiple indicative of a growth stock, but with the theatre industry's growth profile in question, does Cineplex still deserve to trade like a high-growth play?

The movie theatre industry has been going downhill over the last few years, but that's nothing to be shocked about. We're gravitating towards a "stay-at-home" economy thanks to huge technological advancements in home entertainment over the last decade. To add more salt in the wound, 2017 was a pretty lacklustre year for blockbusters (with the exception of December), and that's giving Canadians less of a reason to go out to watch a movie.

Sure, the movie-and-popcorn business may be slowly dying, but fortunately, box office and concession revenues have been accounting for less of Cineplex's total revenues over the years. But in the meantime, these segments are still going to mean a great deal. Unfortunately, I don't think the solution to this problem lies in increasing ticket prices on select movies ($1 hike on *The Last Jedi*), even though it may provide shorter-term relief once the company releases its upcoming quarterly results.

A slow-growth business at a high-growth price?

Movies and popcorn aren't nearly enough to command a premium growth multiple. The industry is slowly dying, and there's pretty much no room to innovate. If Cineplex were to remain primarily a theatre company, shares could stand to lose another 40-50% of their value from current levels. But Cineplex is aggressively making moves to further diversify away from the movie and popcorn business.

Eventually, with the evolution of the shopping mall, I believe there are many opportunities for Cineplex to thrive as an entertainment company where movies are just one of many entertainment offerings.

Topgolf, Rec Room, and arcades are just the beginning. Playdium is going to be revamped and rolled out later this year, and I think Cineplex will eventually re-emerge several years down the road as it reinvents itself as an entertainment behemoth that'll drive traffic to the shopping malls of the future.

This is an extremely long-term picture, however. Cineplex's struggles may continue over the next year or two, as its fate is still closely tied to Hollywood.

In short, Cineplex is still worthy of a growth multiple, but just how much of a growth multiple remains the million-dollar question. If you've got a horizon of at least five years, I'd buy Cineplex today with the intention of averaging down should the stock continue on its negative trajectory. It's a falling knife right now, and the payout ratio has become stretched. However, I'm certain the dividend is completely safe.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/04
Date Created
2018/01/11
Author
joefrenette