Cineplex Inc. Just Increased its Monthly Dividend

Description

There are several reasons why this has been **Cineplex Inc.** (TSX:CGX) stock's worst-performing year. Even though the company is well run, such factors as the movies made available and the valuation of the stock are beyond the company's control.

Is Cineplex's high yield safe?

Cineplex's share price has been cut roughly by half in a year — a huge drop for a stock that provides stable, growing dividends. When the company released its first-quarter results last week, it also announced a dividend increase of nearly 3.6%, which aligns with its dividend increases in the last few years. At the recent quotation of ~$28.60 per share, Cineplex offers a yield of almost 5.9%.

Most of the time, companies that just increased their dividends won't cut them soon after. Additionally, Cineplex's first-quarter payout ratio was under 69%. Thus, its dividend should remain intact. Still, it'll be more reassuring if the company is able to reduce its payout ratio over time.

First-quarter results

Compared to the first quarter of 2017, in the first quarter, Cineplex's revenue declined by 0.9%, adjusted free cash flow per common share declined by 10.7%, and its diluted earnings per share declined by 35.1%. The decrease in earnings was largely due to lower attendance (a decline of 9.3%)

at its theatres.

The Rec Room, Cineplex's relatively new initiative designed to bring people together for fun, food, and entertainment, has been successful, but it's a small contribution to the overall business compared to its box office business. In the first quarter, The Rec Room contributed only 4.1% to its total revenue.

Cineplex is making an effort to further optimize the business and make it more efficient in terms of the cost structures of its businesses and technology opportunities. It estimates cost savings of about $25 million per year. In comparison, Cineplex's adjusted earnings before interest, taxes, depreciation, and amortization was $53.5 million in the first quarter.

Should you buy Cineplex now?

At **Thomson Reuters Corp.**, 11 analysts have a 12-month target of $37.10 per share on the stock, which represents nearly 30% upside potential.

Last week, the stock fell to as low as $28 per share. Even though it has bounced ~2.2% since then, it's still in a downtrend, and it will therefore be safer for investors to wait for it to break out of the downward trend before buying. Valuation-wise, the stock is trading at its long-term normal multiple. So, it looks reasonably valued.

Cineplex's box office revenue still contributes nearly half of its total revenue. Thus, whether new movies will be a hit or a dud will still reflect positively or negatively on the stock.

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