Is Cineplex Odeon a Value Trap?

Description

Shares in **Cineplex Inc.** (TSX:CGX) have fallen to a new 52-week low this month, now trading under $30 on the TSX.

In many cases, a stock trading at its 52-week low can provide a good indication of a profitable opportunity, where a company's shares are trading at an attractive discount, but is it different this time around with Cineplex Odeon?

A slowdown in the movie exhibitor sector

It's been a difficult year for movie exhibitors like Cineplex, as the sector has been subject to a slowdown in movie attendance and box office results.

Thanks to what's been dubbed "sequel fatigue" and a saturation of comic book movies to hit movie screens in recent years, movie exhibitors like Cineplex, **AMC Entertainment Holdings Inc** (NYSE:AMC), and, to a lesser extent, **Cinemark Holdings, Inc.** (NYSE:CNK) have found their share prices fall into a bit of a funk over the past 12 months.

Disappointing first-quarter results for Cineplex

Unfortunately for the company's shareholders, Cineplex found itself unable to reverse the trend in the first quarter ended March 31.

Cineplex stock continued its descent just shy of 10% in the days surrounding its first-quarter reporting.

Despite strong box office results from **Walt Disney Co's** (NYSE:DIS) Black Panther, which, to date, has been the ninth highest-grossing film of all time, Cineplex reported a 9.3% decline in attendance, which helped lead to a 33.7% drop off in net income for the company.

Is the company's dividend in jeopardy?

That won't do much to quell any fears the market has about the safety of the company's dividend,which currently sits at a payout over 170% of earnings.

Surprisingly, the company and its board of governors, in reporting those disappointing first-quarter results, actually announced it had increased that payout by 3.6% to $1.74 per share on an annual basis from its previous $1.68 per share.

It's a move that is perhaps worth questioning in light of the current payout ratio, but it could also be to appease those investors who are demanding a continuation of the Cineplex's current streak of dividend increases.

Cineplex has raised its dividend payout in each of the past 10 years, and it could be that if Cineplex were to announce that it was holding off on a dividend hike—or even cutting or suspending the payout—that investors could end up leaving the stock in droves.

The latest increase could prove to be a type of band-aid solution that keeps investors in the stock for the time being, but it could also end up being the company's undoing if the dividend proves to be unsustainable.

Bottom line

It's certainly not an encouraging sign to see Cineplex not participating in An improved box office performance to start 2018.

Cineplex is still a big player in the Canadian market, but Foolish investors may want to consider a couple of exhibitors doing better south of the border, namely the aforementioned AMC and Cinemark.

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