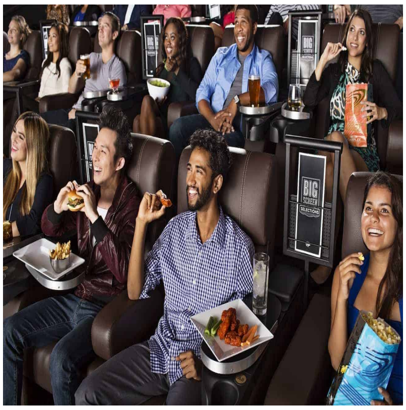

Is This Big Dividend-Paying Fallen Angel Worth Adding to Your Portfolio Today?

Description

Things are looking up for the Canadian economy, says Bank of Canada. Wages are on the uptick, business investment is picking up, and inflation is starting to rear its moderately beautiful head. All this optimism could point to greater wealth and prosperity down the road. If all of this positive news comes to pass, companies that benefit from consumer spending might get a boost from all these wealthy Canadians looking for places to throw their money.

One of the places I like throwing my somewhat disposable income is at the movies. And in Canada, there's no place better than **Cineplex Inc.** (TSX:CGX). The company has a near monopoly, with theatres in almost every city in the country.

Besides being a movie theatre for individuals, the company has expanded its entertainment offerings and style of movie theatres. VIP theatres have begun to spring up all over the country, offering full-service meals and even alcoholic beverages to its menus. Gaming event popularity is growing, with multiplayer tournaments being hosted in theatres. Cineplex Rec Rooms are host to karaoke and trivia events.

For a long time, all these innovations had the Cineplex stock flying high. But over the last few months, the stock has been under pressure, making the stock more interesting to value-oriented investors. So is this fallen stock worth considering or are your hands going to get sliced by this falling knife?

The dividend is quite attractive right now. After the significant share pullback, Cineplex is offering a payout of almost 6% at the current market price. The company seems to have confidence in its dividend, even at this high yield, as Cineplex recently increased it by 3.6%. But high yields like should be watched cautiously.

All the expansions and renovations Cineplex has performed have also done some damage to the company's balance sheet. While it does have a fair amount of cash, it also has quite a bit of debt, which has grown somewhat in the past few years. With interest rates rising, Cineplex will need to rely on a strong economy to keep that cash coming in to pay down the debt.

But the Q1 2018 earnings release was not particularly great. Revenue was down slightly, effectively almost flat, and net income was down over 33%. Attendance also suffered, down 9%, creating a rather negative picture for the company. Much of this decrease was due to the weak movie slate, the company explained, and was offset slightly by the 20.5% increase in revenues from the amusement segment of the business.

Cineplex has been an excellent operator, and there is no doubt that it is beholden to the movie slate coming out in any given quarter. It is encouraging to see their amusement revenues increasing, as these are potentially a source of potentially recurring revenue given that these venues aren't dependent on any given month's movie schedule. The company continues to acquire complementary companies and innovate organically, both of which are positive long term for the stock.

But Cineplex's debt level is a little disconcerting. And while the dividend is attractive, a shrinking financial picture could make it a little less stable, although the dividend does appear to be safe at the moment. Since its next earnings release is coming up soon, it might be prudent to see if the poor financial picture continues to deteriorate or if the last earnings release was a one-time blip.

Finally, a strengthening Canadian economy would more than likely benefit a company like Cineplex as well. If you are positive on the economy and believe in Cineplex's strategy, it might be worth adding this big dividend payer to your portfolio while it is down.

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
2025/08/26
Date Created
2018/08/05
Author
krisknutson