Is Cineplex Inc. (TSX:CGX) Stock a Screaming Buy Today?

Description

Once in a while, investors get an opportunity to pick up stocks that pay reliable dividends, but that have fallen out of favour with the market.

Buying when the chips are down requires a contrarian outlook, and there is always a risk the situation could get worse before it gets better. This is why it helps to get paid well while you wait for sentiment to improve.

Let's take a look at **Cineplex** (TSX:CGX) to see if it might be an interesting pick today.

Overblown fears

Cineplex has fallen victim to investor fears that people are going to abandon the movie theatre in favour of sitting at home and watching content via internet streaming services.

The theory looked like it might have some merit when Cineplex reported lower year-over-year Q1 attendance, but it appears the issue might have had more to do with the movies that were available rather than competition from streaming services.

Why?

The company just reported Q2 results, and attendance actually rose 5% compared to the same period last year. In addition, people are not shy about opening their wallets when they go to the show, as box office revenue per person hit a record $10.82, and concession revenue per person jumped 9.3% to an all-time Q2 record of $6.59.

Overall, total revenue increased 12.4%. Adjusted EBITDA increased 78% to $67.8 million, and adjusted free cash flow per share increased 143% to $0.69.

Cineplex is working hard to diversify its business with amusement and digital media assets complementing the film and content segment. That said, box office and food sales still account formore than 75% of revenue, so the company needs access to quality content to pull in the viewers.

Cineplex raised its monthly dividend from $0.14 to $0.145 per share in May, so management can't be overly concerned about the revenue stream.

The stock has bounced off the recent low near $28 to $32 per share, but more gains could be on the way. Last summer, Cineplex traded for more than $50. The dividend should be safe and currently provides a yield of 5.4%.

Should you buy?

Reports recently came out that **Amazon** is looking at buying the Landmark Movie chain of 50 theatres in the United States. If it is true that Amazon or **Netflix** plans to own big screen venues to showcase their own content, Cineplex could be a target, given its dominant position in Canada.

At this point, Cineplex looks oversold, especially if movie chains are about to become hot takeover targets. If that doesn't pan out, you get paid a nice dividend while the company works through its turnaround plan.

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