Cineplex Inc. (TSX:CGX): Don't Overlook This 5.1%-Yielding Dividend Stock That Is on Sale Today

Description

Cineplex (TSX:CGX) stock has had an abysmal year and a half, falling 35% from its highs and clearly having trouble breaking out again. The story gets good here, though, for those investors looking for a solid dividend stock at bargain prices.

Here's why.

Strong dividend

As I mentioned, Cineplex stock has a dividend yield of 5.1%, so investors that buy the stock today get the benefit of an attractive income stream.

The payout ratio is a healthy 73%, and the 10-year compound annual growth rate of the dividend is almost 4%.

Good stuff so far, right?

Let's see what else it's got.

Strong brand

Cineplex enjoys somewhat of a monopoly in the theatre business, with 80% of the Canadian box office.

It has built itself a moat, as barriers to entry are high for potential competitors. Cineplex has very strong relationships with the studios and continues to leverage these relationships.

It also has a strong brand name and continues to leverage that in other areas, such as Cineplex media, which offers its customers a digital media platform for their advertising and in-store digital signage needs.

And there's Cineplex Store, which brings movies to us in the comfort of our homes.

Increasing diversification

As we have seen again this most recent quarter, Cineplex continues to benefit from its strategies aimed at boosting revenue to combat stagnating attendance in the box office segment.

And Cineplex's diversification strategy is paying off, as the company continues to increase revenue from the "other" category, which includes Cineplex media, Rec Rooms, as well as an online e-sports platform, amusement, and entertainment solutions.

In the latest quarter, the second quarter of 2018, the other category represented 24% of total revenue.

This compares to the segment's contribution in the mid-teens percentage level just a few years ago.

Strong cash flow

Cineplex is coming out of a period of intense investment and the latest quarter has shown us the fruits of this investment.

The company's adjusted EBITDA margin came in at 16.6% compared to 10.4% in the same period last year and free cash flow came in at $25 million compared to negative $80 million in the same quarter last year.

Attractive valuation

The stock had been very richly valued when it was trading above $50, at 40 times earnings, so I can see why the stock faltered in the short term.

But today, valuation levels are downright absurd, and with the stock trading at 24 times this year's earnings, it is now an undervalued stock that will not remain that way for long.

With its solid dividend yield, its strong and improving cash flows, and the success of its diversification efforts, this dividend stock is definitely one worth adding to your portfolio.

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