This Dividend-Growth Stock Is a Buy Despite the Market Mayhem

Description

It’s easy to get caught up in the recent market mayhem. In such times, emotions cloud investors’ judgement, and they are quick to react. Unfortunately, individual investors who let emotions take over often make the wrong decision. This is the main reason why individual investors tend to underperform.

Lost in the recent correction has been the outstanding performance of **Cineplex** (TSX:CGX). After hitting a low of $27.56 earlier this year, the company has quietly staged a comeback. Trading at $35.98, it has jumped 30% from its 52-week low. Likewise, it has bucked the current downtrend and has gained 6.2% over the past month. This far exceeds the TSX Composite Index’s 7.24$ loss over the same time period.

Record box office

What is driving this rebound? Despite all the pundits who point to an antiquated theatre model, North America is seeing record box office numbers. Year to date, box office receipts are up 10.9% over 2017 and 5.2% over 2016’s record year. **Disney’s** marvel properties have been leading the charge with *Black Panther*, *Avengers: Infinity War*, and *Incredibles 2* all topping the vaunted $600 million mark.

The year is also expected to end on a high note, as there is a slew of high-profile films scheduled to hit theatres over the next few months. The year’s strong film slate has translated to strong YOY comparisons for Cineplex. Through the first six months of the year, revenues and attendance grew by 12.4% and 5%, respectively, over the same period last year. Expect these numbers to accelerate as the second half has been stronger than the first. Through June, box office receipts were up only 0.6% of 2016’s record, and it has since extended its lead.

Valuation

Thanks to its strong performance over the past few months, Cineplex is no longer the bargain it once was. This doesn’t mean it doesn’t offer good value. The company is trading at a price-to-earnings multiple of 26.63, which is still below its historical average of 27.9. This year has been the first time since 2012 that it has traded below its historical averages. Although a P/E in the 20s may seem expensive, Cineplex commands a premium. Why? It’s the dominant player in the industry.

Dividend growth

In times of uncertainty, reliable dividend-growth companies tend to outperform. Cineplex is a Canadian Dividend Aristocrat, having raised dividends for eight consecutive years. Its payout ratio is 125.9% of earnings. Don’t read too much into this as earnings have many one-time items that have no bearing on a company’s ability to pay its dividend. Cineplex has undertaken a significant capital-expenditure program which is impacting earnings over the short term.

A better measure of dividend safety is the dividend as a percentage of cash flow. Through the first six months of the year, the company generated $1.288 in adjusted free cash flow per share. As such, dividends were well covered and accounted for only 67% of adjusted free cash flow.

It’s not all bad out there. Remember to be greedy when others are fearful and don’t let emotions cloud your judgment.

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Date
2025/07/03
Date Created
2018/10/25
Author
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