Is Cineplex Inc. (TSX:CGX) Stock a Buy for the 6% Yield?

Description

Dividend investors are always searching for unloved stocks that offer above-average yield with the potential for a nice move to the upside.

Let's take a look at **Cineplex** (TSX:CGX) to see if it could stage a recovery through the end of 2018 and into next year.

Tough quarter

Cineplex just gave back six months of gains in one day.

What happened?

The company reported Q3 2018 results that came in below expectations and investors hammered the stock as a result, sending it down 20% from $36 to $28.50 per share.

Earnings came in at $0.16 per share compared to $0.27 in the same period last year. A closer look at the numbers, however, suggests that the reaction might be overdone.

Total revenue increased 4.4% on an year-over-year basis. The company saw a 2.6% increase in theatre attendance, and the people who went to the movies spent more on both tickets and concessions. Adjusted free cash flow dipped slightly from $37.9 million to $36.5 million.

Big picture

For the first nine months of 2018, Cineplex has delivered a 5% increase in total revenue, a 20% gain in net income, and a 20% increase in free cash flow. Theatre attendance is down just 1.1%.

Cost-cutting and improved efficiency measures have helped, and the company continues to focus on its expansion into other segments, including location-based entertainment with its Rec Room facilities, as well as eSports.

CEO Ellis Jacob said a drop in advertising revenue was part of the story, as a change in government in

Ontario resulted in lower spending by that province. Adjustments in large ad contracts in the automotive sector also had an impact.

The company expects Q4 to be better and is optimistic about 2019, as a strong portfolio of new films should drive solid theatre attendance.

Dividends

Cineplex raised its dividend earlier this year. The current annualized payout of $1.74 per share provides a yield of 6%.

Potential takeover target

As the U.S. tech giants expand their streaming services and ramp up their content creation, there is a chance they will decide to dominate the big-screen business.

If that turns out to be the case, Cineplex would likely be a prime target given its position as the largest player in the Canadian market.

Should you buy?

The Q3 numbers certainly came in weaker than expected, which is putting many investors in a *show-me* mode heading into Q4 and the first part of next year.

Contrarian investors might want to start nibbling while the stock is out of favour. The dividend should be safe, and a strong Q4 could send the stock back toward the 2018 highs next year.

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