



## Supercharge Your TFSA With This Canadian Dividend-Paying Stock

### Description

Cineplex Inc. ([TSX:CGX](#)) stock has remained weak in 2018, but will 2019 be a comeback year for this former investor darling?

Certainly, Cineplex stock is still mired in uncertainty and questions about the movie exhibition business and the company's efforts to diversify its revenue sources.

But if we take a step back and look at what is most important here, we can see that the following four key points all serve to strengthen the case for Cineplex stock.

#### **Cineplex stock is not priced for strong growth**

Cineplex trades at a P/E multiple of 20 times this year's expected earnings, and 18 times next year's expected earnings.

In 2020, the company's growth and diversification initiatives are expected to take hold and really make a strong impact on earnings.

If management can deliver on their plans, valuation looks even more [ridiculously cheap](#).

#### **Cineplex is a cash cow business**

A cash cow business that has, in the last five years, generated an average operating cash flow as a percent of revenue ratio of 14%. Although this ratio has been declining, it is still strong and it has turned the corner in the first nine months of 2018.

Year-to-date free cash flow increased 20% to \$119 million.

#### **Attractive dividend**

The [dividend yield](#) of 6.5% is high, and supported by cash flow. Although the payout ratio exceeds 100% of net income, on a cash flow basis it is below 70%. Additionally, the 10-year compound annual growth rate of the dividend is almost 4%.

### Uncertainty subsiding

While uncertainty remains a key roadblock for investors and for the stock, things are improving. Diversification efforts are bearing fruit, with the “other revenue” segment representing a full 25% of total revenue in the first nine months of 2018, and with the amusement category revenues increasing 11%.

This, in effect, is slowly increasing the long-term growth trajectory of the company.

In the next year or so, visibility should improve, as Cineplex's diversification efforts will continue to show results; these results will essentially be the test that the company has to pass in order to regain investor confidence.

### In summary

Cineplex stock currently offers investors strong cash flows, a steady anchor in the movie exhibition business, and a fast growing presence in the lucrative e-gaming and entertainment world.

Given the company's increasing diversification, its strong cash flows, and its growing presence in the e-gaming world, this entertainment stock is increasingly well positioned to capture the entertainment needs of the young and old, the millennials and the baby boomers.

Finally, in difficult economic times, spending on entertainment needs may be more resilient than we would expect, considering the “feel good” effects on consumers that may be struggling.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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