Is This Big-Dividend Stock on Sale?

Description

Cineplex (TSX:CGX) reported its fourth-quarter and full-year 2018 results and maintained the same monthly dividend as last month for February. However, the stock fell more than 7% on Friday, which has pushed its yield to almost 7%!

Is Cineplex' dividend safe? Is the stock too cheap to ignore? Should you invest in the stock?

Before answering these questions, let's review some key metrics from the full-year results.

	2017	2018	Change
Total revenues	$1,555.1 million	$1,614.8 million	3.8%
Theatre attendance	70.4 million	69.3 million	-1.6%
Net income	$70.3 million	$77 million	9.4%
Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA)	$235.9 million	$256.4 million	8.7%
Adjusted EBITDA margin	15.2%	15.9%	0.7%
Adjusted free cash flow	$150.6 million	$178.2 million	18.3%
Adjusted free cash flow per share	$2.37	$2.81	18.5%
Diluted earnings per share	$1.11	$1.22	9.9%

One problem Cineplex had was having an overreliance on a good slate of movies. The company has put in a lot of effort in diversifying away from that with investments in The Rec Room, virtual reality, and more, but box office revenue still made up nearly 62% of its total revenues in 2018.

The overall results for the full year was stable, with total revenues growing at roughly the long-term rate of inflation. Cineplex' diversification strategy and cost control efforts have helped grow its adjusted EBITDA 8.7% to $256.4 million.

Is Cineplex' dividend safe?

Cineplex' 2018 dividend payout totaled $1.72 per share, which equated to a payout ratio of under 62% of adjusted free cash flow. The company is positive about the movie slate for this year as well as the direction its businesses are going and believes its diversification strategy will lead to future growth.

Cineplex has maintained or increased its dividend at least since 2005, and it has increased its dividend per share every year since 2011 at a compound annual growth rate of 4%.

With strong cash flow generation, a diversifying business, a track record of paying a safe dividend, and a sustainable payout ratio, Cineplex' dividend should be safe, and it should continue to increase the dividend by 3-4% per year.

Is Cineplex stock cheap?

At $25.14 per share as of writing, Cineplex trades at a price-to-earnings ratio of 20.6 (P/E) and under nine times free cash flow. The stock looks reasonably valued based on P/E and decently discounted based on its cash flow multiple.

Analysts from **Thomson Reuters** has a 12-month mean target of $33.30 per share on the stock, which represents 32% near-term upside potential. Throwing in the juicy 6.9% yield, near-term total returns of 30% is possible.

Should you buy Cineplex stock?

Cineplex' 6.9% yield looks sustainable. The stock is likely trading at a +20% discount, but it's been stuck in a downward trend for a year and a half or so. With the stock falling +7% on Friday, cautious investors should wait for it to retest its December low before deciding to buy or not to buy.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/09/19
Date Created
2019/02/18
Author
kayng