Does the Buck Stop With a Dividend Cut for Cineplex Inc (TSX:CGX) in 2019?

Description

Canada's largest movie theatre exhibitor **Cineplex** (TSX:CGX) reported its fourth-quarter and 2018 year-end results earlier this month. On the surface, things might seem mildly okay, but a deeper dive into the numbers reveals a more discouraging picture.

Full-year revenues for 2018 came in at $428 million, little changed from 2017's revenues of $426 million. Net income, meanwhile, was a reported at $27 million, which, while it was only $2 million less than 2017's reported net income of $29 million, represented a 5.7% year-over-year decline. But, to be perfectly honest, a 5.7% one-year decline wouldn't in and of itself be enough to scare me away from a company if I believed it to be an otherwise attractive dividend investment.

What I find most disturbing about Cineplex's latest earnings release was that attendance across the company's chain of theatres continues to experience declines.

Theatre attendance across the Cineplex network was 17 million in 2018, down -3.2% from 2017's theatre attendance. That's not good, particularly when you consider that attendance at U.S.-based rival **AMC Entertainment Holdings** was *up 8.2% globally* through the first nine months of 2018, including 6.4% in its U.S. markets.

The only way that Cineplex has managed to keep its revenues from falling is that its extracting increasingly more money from its customers each time they attend one of its theatre locations. In 2018, Cineplex generated an average of $10.73 in revenues per patron, up 1.8% from $10.53 in 2017. In terms of the money Cineplex charged theatre attendees for its concessions (food and beverages) in 2018, the average patron spent $6.53 per visit — up 3.8% from the $6.29 they spend on average a year ago.

Is a dividend cut on the horizon?

Granted those price increases have helped to keep the company afloat for the time being and have continued to support the firm's regular $0.145 monthly dividend distribution. Cineplex's shares were yielding 6.99% annually heading into Tuesday's trading.

However, at the same time, that $0.145 monthly payout (which works out to $1.74 annually) is starting to look more and more unsustainable in light of Cineplex's full-year earnings for 2018 of $1.22 per share and free cash flow per share of $1.47.

Bottom line

While there are certainly investors out there who will focus on dividend yields, at the end of the day, it's an investment's expected total return that should be of the utmost importance to investors when considering the merits of a dividend-paying stock.

If I happened to be sitting on the board of directors at Cineplex right now, I think I'd be doing my best to avoid pandering to crowd that wants to avoid a dividend cut at all costs.

Instead, I think at least some of the funds that are currently being redistributed to shareholders may be better off being reinvested in the company's long-term growth.

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Date

2025/07/23
Date Created
2019/02/26
Author
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