Warning: This 6%-Yielding Dividend Aristocrat Is at Major Risk of a Cut to its Payout

Description

Shares in **Cineplex** (TSX:CGX) currently offer the company's shareholders a 6.77% dividend yield, which is far from an insignificant payout in today's market.

And, as a matter of fact, Cineplex has managed to increase its dividend payout every year since 2009, qualifying it among the elite as a TSX Dividend Aristocrat: companies with demonstrable track records of consistent dividend increases.

But following some pretty severe stagnation in the company's financial performance, I'm going to go on record right now as saying that there's very good reason to believe that a significant cut to Cineplex's current payout could be looming on the horizon.

That cut, mind you, could potentially come even as soon as this Thursday, on May 9, when Cineplex is scheduled to report its first-quarter 2019 earnings results prior to the market open.

Now, don't get me wrong here, I still happen to think that Cineplex is a fairly great business.

People have been going to the movies dating all the way back to the turn of the last century, and despite what critics will have you believe, I'm not too sure that trend is about to change any time soon.

But at the same time, when you start to dig a little deeper, Canada's largest movie exhibition company is still dealing with some underlying cash flow issues that make the current $0.145 monthly distribution appear — again, at least to me — unsustainable, as we move forward into the future.

The company's dividend-payout ratio currently sits at 141% — a stark warning about the sustainability of a company's dividend if there ever was one.

And while I'll be the first to recognize that dividends get paid out of cash flows and not earnings, the current cash flow picture at Cineplex doesn't exactly paint a better picture, either.

Trading at a yield well above the company's own historical averages suggest the market isn't giving the dividend much credit either, and I guess I don't understand why Cineplex would be so interested in rewarding a market that wasn't returning the favour, particularly in light of its current plans to invest significant sums of capital in forthcoming live entertainment projects.

If I were on Cineplex's board of directors (and obviously, I'm not), I'd rather reinvest the money in the business until things start to improve again and, if that happens, reinstate a policy of successive dividend increases.

Bottom line

Trading at a 6.77% yield, there's no denying that Cineplex's dividend can give investors the impression that it represents great value right now in light of where the shares have traded historically.

But as we all know, even at the movies, "there are no free lunches."

Because of the potential fallout that could ensue if the market doesn't see a dividend cut coming, I just think that an investment in Cineplex stock right now warrants a little closer attention, even if we are talking about one of the TSX's much vaunted Dividend Aristocrats.

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Date
2025/09/08
Date Created
2019/05/08
Author
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