2 Cheap Dividend Aristocrats: 1 Is a Buy Right Now

Description

The Canadian Dividend Aristocrats, **Magna International** (TSX:MG)(NYSE:MGA) and **Cineplex** (TSX:CGX), have both increased their dividends for more than five consecutive years, and they currently trade at discounted levels.

The market has voted on which is a better buy after their first-quarter results, as Magna stock falls 10% and Cineplex stock climbs 4.6% on Thursday. Let's explore why they moved in opposite directions.

Magna lowered guidance

Magna revised its outlook for the company to reflect lower global vehicle production. Additionally, Don Walker, Magna's CEO, sees margin pressure in the Power & Vision segment, which contributed about 29% of first-quarter sales.

In Q1, Magna reported sales decline of 1.9% to US$10.6 billion. Diluted earnings per share (EPS) rose 85% to US$3.39 compared to Q1 2018 because the autoparts maker sold its Fluid Pressure & Controls business for US$1.23 billion with a gain of US$516 million. Excluding the impact of the sale, the adjusted diluted EPS, which describes the actual business performance, fell 11.4% to US$1.63.

Management now estimates lower net income of US$1.9-2.1 billion, which implies that the stock is trading at a forward price-to-earnings ratio of about eight.

Magna stock is discounted, but due to the cyclicality of the business and the fact that it has been investing large amounts, over 40% of operating cash flow, into the business (e.g., the shift to electric vehicles and autonomy), the stock can fall further before it goes higher.

That said, Magna is paying out less than 25% of earnings and free cash flow as dividends this year. So, its 3% yield seems safe — even if its earnings were shaved in half, its payout ratio would still be less than 50%.

Cineplex offers a juicy yield of 6.9%

Despite a weak first quarter with theatre attendance falling 15.6% over the same quarter in the prior year, management is confident about the company's outlook for the year.

As Cineplex's press release stated, "Although the first quarter film product was soft, the second quarter has been strong and we are encouraged by the outlook of the 2019 film slate."

Investors who were worried about the sustainability of Cineplex's dividend can feel at ease that the entertainment company just raised the monthly dividend by 3.4% (beginning with the May dividend that's paid in June), which aligns with the dividend growth rate in the last few years. The new annualized payout of $1.80 per share implies a whopping yield of 6.9%.

Despite the pop of 4.6% from the positive outlook, Cineplex stock is still shaved by roughly a half from its peak in 2017. At the market close price of about $26 per share, Cineplex trades at a cheap price-to-cash-flow ratio of about 7.7 versus its 10-year normal multiple of about 10.9, which represents a fair price of more than $36 for over 38% upside potential. Investors should note that the stock could take several years to reach that price target.

Foolish takeaway

The market disliked the negative outlook in cyclical Magna, so the stock could experience further near-term pressure. On the other hand, the near future looks brighter for Cineplex with a better movie slate for the rest of the year. Cineplex also offers income that's more than double that of Magna's. Therefore, Cineplex stock will likely be a better buy for total returns over the next 12 months.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)

2. TSX:CGX (Cineplex Inc.)
3. TSX:MG (Magna International Inc.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Date
2025/08/24
Date Created
2019/05/12
Author
kayng