3 Reasons to Load Up on Cineplex (TSX:CGX) Shares Today… Before it's Too Late

Description

The bears have spoken, and they all agree. It's bad news ahead for **Cineplex** (TSX:CGX).

You've likely heard all their arguments before. Online-only competitors are spending aggressively on content, which will continue to keep people away from the movies. The average movie offering from Hollywood is lacklustre at best. It costs too much to go to the movies, too. And so on.

The interesting thing is the movie industry has faced these criticisms for decades now. Instead of **Netflix** being the big threat, it was formerly cable TV or renting movies from Blockbuster. The hit-or-miss nature of the movie industry has been around for a long time, too. Hollywood is simply doing what any logical business would do, and that's take fewer risks.

I don't believe these naysayers are right, at least not yet. Here's why I think Cineplex shares have some significant upside from here.

Short-term gains

I, like millions of other movie goers, recently watched the new Avengers movie, *Endgame*. It actually lived up to the hype.

The epic three-hour-plus extravaganza is well on pace to be one of the top grossing movies of all time. It might even snatch top spot from *Avatar*, which did US$2.7 billion in theatrical sales back in 2012. In its first week alone, *Endgame* easily passed US$1 billion in box office revenues.

Yet Cineplex is getting zero credit for these filled theatres. Shares are actually down slightly thus far in 2019, while the rest of the market is up handily. This doesn't make any sense to me. Investors should be able to count on a nice short-term pop when results come out for this quarter.

Hollywood is upping its game

Endgame is just one of at least a dozen blockbusters being released by the traditional motion picture companies this summer. Other big movies include a *Spiderman* sequel, the Elton John biopic *Rocketman*, live-action versions of *Aladdin* and *The Lion King, Toy Story 4*, and a reboot of the *Men in Black* franchise.

This slate might seem a little sequel-heavy for critics, but it just goes to show that the Hollywood studios are smart to use these brands to their advantage — especially if these movies sell.

Compare that to Netflix, which is forced to take a shotgun approach to content. It has to try everything it can, hoping to stumble upon a few iconic hits it can then build off. Hollywood has more than a century of movies at its disposal that are already proven winners. Advantage: Hollywood.

The dirty little secret of Netflix's content spend is the majority of its dollars go towards films and shows that never end up being that popular. It's hard to start from scratch.

All Cineplex has to do is sit back, relax, and watch Hollywood come roaring back. I think it can easily happen.

Paid handsomely to wait

Some folks are convinced Cineplex is poised to cut its dividend, despite the company easily earning enough cash flow to fund the payment. I disagree; I don't think a dividend cut is imminent.

Cineplex posted an adjusted free cash flow of $2.81 per share in 2018. That was an 18% improvement over 2017's number, which came in at $2.37 per share. It paid out $1.72 in dividends last year, giving it a payout ratio of just 61%.

The company announced a dividend increase with its first-quarter results earlier this month, increasing the annual dividend to $1.80 per share — a 3.4% increase. This bumps the company's consecutive years of dividend-growth streak to nine; it has increased the payout annually since 2011.

Shares currently yield 7%. This is an excellent consolation prize while waiting for capital gains.

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