Here’s Why Cineplex (TSX:CGX) Stock Is a Buy for its +7% Dividend

Description

Cineplex (TSX:CGX) stock is looking like a buy today, thanks to strong current quarter expectations. What’s more, an estimated increase in theatre attendance this quarter could see its share price boosted by a positive Q2 report.

Back in May, Cineplex reported its first-quarter results and announced an increase in its dividend along with its positive Q2 expectations. Not only that, but on June 6, Cineplex announced the appointment of Shawn Mandel to the role of chief digital and technology officer. This should be a big plus for Cineplex, given Mandel’s reputation as a technology executive, and is expected to drive innovation in company-wide digital, product, and IT strategies.

Media investors have plenty to keep them entertained this summer

After a Q1 that reported a 13.7% dive in box office takings coupled with an 11.9% drop in food service, Cineplex is being smart and diversifying into other areas of its business. This was put down to a 15.6% decline in theatre attendance, blamed in part on a season mostly devoid of big blockbusters, especially when compared to this time last year.

The key differential is the movie industry’s month-by-month schedule of popular titles. Last year’s first quarter boasted the very popular *Black Panther*. By extension, the current quarter saw the release of *Avengers: Endgame*, meaning that Cineplex’s theatre attendance should be up this quarter; by extension its share price should see a boost running up to, and on the back of, an improved Q2.

The losses in Cineplex’s Q1 were balanced by gains in other areas of business. Cineplex enjoyed a 17.2% increase in amusement revenue, thanks to the popularity of P1AG and The Rec Room, for instance. This translated to an all-time quarterly record of $58.5 million. Digital place-based media revenue also shot up by 21.9%.

What else do Cineplex shareholders have to look forward to?

Investors looking to buy stock in an expansion-hungry company have plenty to work with here. Cineplex opened a sixth Rec Room during the last quarter, while growing its SCENE loyalty program to incorporate 9.7 million members. Cineplex also rolled out its in-theatre alcohol beverage service to a further 19 locations.

Expectations are high, with a strong fiscal year boosted by 2019's remaining film slate and some encouraging inside buying over the past three months. In addition to diversifying and growing the scale of its business, Cineplex also announced a 3.4% dividend increase to $1.80 per share on an annual basis.

The current dividend yield of 7.65%, already known for being significantly high, is estimated to rise to 7.71% next year. Prospective investors should be encouraged to know that Cineplex's payments have been stable over the last 10 years and have also risen over that period.

The bottom line

Cineplex is learning from its soft box office results and diversifying into its other areas of business. Its increased dividend and appointment of a seasoned digital and tech officer show that the company is capable of innovation, and committed to rewarding its shareholders. As such, this stock is a solid buy today for investors in the entertainment sector.

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