Is Cineplex (TSX:CGX) a Defensive Dividend Stock in Disguise?

Description

Rocketing by a significant 8% at the end of last week, investors were clearly entertained by the earnings beat by the popular media giant **Cineplex** (TSX:CGX). It's looking like a solid stock, and, though it's had its detractors, it could be more defensive than it at first appears. Let's comb through Cineplex's recent statistics and see whether this stock belongs in a portfolio during these uncertain times.

A strong second quarter plus canny business diversification

Naysayers tend to point to declining theatre attendance as a reason to steer clear of this stock, eschewing its 7.33% yield and casting doubt on a timely return from new business initiatives. However, given the company's ubiquity and large market share, this strategy of business of diversification is, in fact, quite likely to pay off in the long run — investors will simply have to be patient.

However, one of the main reasons why patience is no bad thing when it comes to Cineplex is the very fact that its dividend yield is so handsomely large. Unfortunately, even a cursory glance over the available data for this stock — including everything from market ratios to track record to future outlook — suggests that the naysayers may be right in some regards.

For one thing, the stock is overvalued compared with its peers in the Canadian entertainment industry — though it should be said that the U.S. market itself is full of overpriced stocks in the movie theatre space. More egregious, though, is Cineplex's balance sheet, which carries debt of over 100% of the company's net value and represents a doubling of its debt load over the last five years.

Inside buying and a wide moat are encouraging factors

The fact that company insiders have been snapping up shares in Cineplex over the last three months is a positive sign, however, suggesting that members of its inner circle are confident that the stock will continue to improve. Add to this the wide economic moat that separates Cineplex from the rest of the Canadian entertainment industry, and you have a stock that taps into a core social function of everyday life while also penetrating other key media markets.

In other words, while there is a certain risk present in purchasing shares in a company that carries as much debt as it does asset value, Cineplex appears to be doing no worse than its peers in terms of performance and is, in fact, considerably cheaper than it has been for much of the year. While it is trading with higher multiples than is perhaps comfortable, it could be said that a value opportunity exists so long as the stock trades midway between its year-long high and low point.

The bottom line

While some pundits may point to declining theatre attendance, Cineplex looks like a buy at the moment . The media giant not only fills a key niche in Canadian society through its movie theatres but continues to spread operational risk across an expanding suite of business areas. Though it could be argued that it's unsustainable, the fact remains that Cineplex is still a moderate buy for a generous distribution that has exhibited both growth and stability in the last 10 years.

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Date
2025/10/01
Date Created
2019/08/12
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