Buy This Dividend Aristocrat Before it's Too Late!

Description

I have been keeping a close eye on **Cineplex Inc** (TSX:CGX) over the last several months. The stock price continues to hover at near record lows and is down more than 40% from its April 23, 2017, all-time high of $53.73. Although there are some good reasons for investor skepticism, the magnitude of the fall feels like an overreaction. A closer look at the company reveals that it could be an excellent buy at its current price.

In a nutshell, the falling stock price is due to dwindling theatre attendance. Attendance at Cineplex's 163 movie theatres peaked at 77 million in 2015 but has declined in each of the last two years, hitting 70.4 million in 2017. This decline can be attributed to the recent slate of uninspiring movies, but some have also blamed the rise of streaming services like **Netflix, Inc.** Unfortunately, things did not look any better in the first quarter of 2018 as attendance decreased by over 9% compared to the same period last year.

There is some good news. It seems like attendance is turning around; data from Box Office Mojo shows that box office revenue increased by almost 22% in the second quarter of 2018 compared to the same period last year. This positive data should be reflected in Cineplex's second-quarter results, which is due on August 10. There's no doubt that the threat from streaming services is real, but recent results from Netflix showing slowing subscriber growth suggests that this threat may be somewhat overblown.

Despite the summer turnaround in attendance, it's clear that Cineplex needs to become less reliant on Hollywood. The company has tried to diversify by expanding its amusement business, which includes gaming and vending machine installation and operation. This strategy is working; since 2013, amusement revenue has increased from 0.6% of total revenue to about 12% of total revenue today. In contrast, revenue from movie ticket sales has declined from 57.6% of total revenue to about 46% of total revenue over the same period.

Diversification will continue over the next several years, as Cineplex expands its Rec Room concept, which combines dining, live entertainment, and gaming under one roof. The company opened three new Rec Rooms in 2017 and is on track to open 10-15 new locations over the next few years. The company is relaunching its arcade gaming Playdium brand concept and plan to open 10-15 Playdiums over the next few years.

In order to combat the threat from streaming services, Cineplex needs to offer a cinematic experience that's not easily duplicated at home. Virtual reality (VR), which can provide an interactive experience that combines cinema and gaming, could potentially be the vehicle that gets people back to the theater.

Cineplex now offers VR experiences at Scotiabank Theater Ottawa and Scotiabank Theater Toronto. The company is partnering with The VOID to open at least five new VOID Experience Centres that will combine VR, smell, and touch for a truly immersive experience. These investments are key to the long-term growth of the company.

The bottom line

Cineplex has been making solid progress as it executes its strategy to diversify its revenue streams and invest in technology designed to offer its guests a more immersive cinematic experience. This should drive revenue growth and the stock price in the medium to long term.

Cineplex offers an attractive annualized dividend of $1.74 per share, which corresponds to a forward dividend yield of 6% at its August 3rd closing stock price of $28.20. With a 2017 financial year adjusted free cash flow per common share of $2.37 and Cineplex’s long history of annual dividend increases, it’s likely that these dividend payments are safe, at least in the medium term. Now seems like the perfect time for investors to buy this stock and lock in this attractive dividend yield.

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