How Does Cineplex Inc. Stack Up Against U.S. Peers?

Description

The Memorial Day weekend in the U.S. stands for a lot of things, one of which is the opening of summer blockbuster movie season.

While the business of making movies is a big one, so too is the business of showing those movies. Even though home viewing options have come a long way, lot's of people (although not the one's with 3 young kids at home) still take in their movies the ol' fashioned way. At the theatre.

The dominant Canadian player in this space is **Cineplex** (TSX:CGX). Cineplex operates 136 theatres from British Colombia to Quebec and serves approximately 71 million guests on an annual basis. When most Canadians go to the movies, they go to a Cineplex theatre.

The stock

Cineplex is also a publicly traded company. And a good one at that. Over the past 3 and 5 years, Cineplex shares have registered a total return of 100.6% and 194.0% respectively. This compares to the S&P/TSX Composite return over these periods of 7.8% and -12.8% respectively.

One of the problems that people have when it comes to evaluating Cineplex is that there really isn't another company like it in Canada. Therefore, to put Cineplex into context, we need to look south of the border for a comparable or two.

Peer compare

Two names jump out when it comes to U.S. theatre companies. The bigger of the two, in terms of market capitalization, is **Cinemark Holdings** (NYSE:CNK). The other is **Regal Entertainment** (NYSE:RGC).

Although both operate significantly more theatres than Cineplex, the numbers behind these companies show that bigger isn't necessarily better.

Cineplex is clearly a stronger entity based on 2 of the 3 financial statements. Tabled below are a few metrics that demonstrate Cineplex's relative strength when it comes to the cash flow statement and balance sheet.

	Cineplex	Cinemark	Regal Ent.
Levered FCF Margin	9.0%	6.7%	6.6%
Total Debt/Capital	20.2%	63.5%	145.9%
Interest Coverage	12.8	3.0	2.3

Source: Capital IQ

As the levered free cash flow margin demonstrates, Cineplex does a far better job of turning each dollar of sales into free cash flow than the other two names. And, its balance sheet is much cleaner. In fact, we couldn't even look at a debt/equity ratio compare here because Regal carries negative equity.

The catch

What you get in quality, you give up in growth and valuation. Year-over-year EPS growth at Cineplex is expected to check in at 5.7%. This pales in comparison to Cinemark, which is expected to grow earnings this year at a rate of 18.5% as the company leverages its South American presence. Regal is expected to post no EPS growth in 2013 according to Capital IQ.

Given that Cineplex has basically saturated the Canadian landscape, it's little surprise that this challenge exists.

In addition, Cineplex trades at a premium to its U.S. peers in terms of its forward earnings multiple. Cineplex's forward P/E multiple sits at 19.9 vs. 16.4 for Cinemark and 17.8 at Regal.

The Foolish Bottom Line

Even though Cineplex has some superior attributes, growth will be an ongoing challenge and therefore, Cineplex is too richly priced for this Fool. However, it's no doubt a quality name and should our market, aside from resource stocks, ever sell-off again, investors should be waiting with open arms to welcome this company into their portfolios.

Just like Cineplex dominates the Canadian movie theatre space, the 3 companies profiled in the Motley Fool's Special Free Report "**3 U.S. Stocks Every Canadian Should Own**" dominate the *global* industries in which they participate. To download a copy of this report at no charge, simply **click here**!

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Fool contributor Iain Butler does not own shares of any of the companies mentioned at this time. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNK (Cinemark Holdings, Inc.)
2. TSX:CGX (Cineplex Inc.)

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