IMAX Corporation or Cineplex Inc.: Which Entertainment Company Belongs in Your Portfolio?

Description

IMAX Corporation (TSX: IMX)(NYSE: IMAX) and **Cineplex Inc.** (TSX: CGX) are two of the largest operators of movie theatres in the world and both companies' stocks have widely outperformed the TSX Composite Index over the last several years.

However, both stocks have fallen year-to-date, underperforming the overall market in the process andcreating what appears to be a buying opportunity. Let's take a closer look at the most recent earnings reports, and the current valuations to determine which represents the better long-term opportunity.

IMAX: Building profits through a one-of-a-kind experience

IMAX is a global leader in entertainment technology, specializing in high-quality, "immersive motion picture technologies." The company currently operates 868 theatres in 59 countries and it continues to expand this presence. In the last two months alone, IMAX has announced agreements with AMC Theatres, Cinepolis Luxury Cinemas, and Stellar Cinemas that will add another 15 IMAX theatres in the United States and China.

In IMAX's second-quarter report released on July 24, earnings per share increased 13.6% to $0.25 and revenue declined 3.1% to $79.1 million. Even though revenue fell slightly, gross profit increased 9.5% to $47.8 million and operating income increased 12.4% to $19.6 million; this growth is attributable to lower costs of sales in IMAX's equipment and product sales segment, reduced expenses in its services segment, and lower costs associated with research and development.

Today, IMAX's stock sits about 6% below its 52-week high of and trades at about 45 times its trailing 12 months earnings. A multiple of 45 seems quite steep given the company's slowed earnings growth, but it does trade at just 26 times fiscal 2015's estimated earnings per share of $1.19.

Cineplex: The Canadian empire

Cineplex is the largest owner and operator of movie theatres in Canada, with 163 theatres and 1,643 screens in all 10 provinces. The company currently has an estimated 79% market share in Canada, which it has achieved through both organic growth and strategic acquisitions.

In its second-quarter report released on August 6, Cineplex showed earnings per share declining 17.8% to $0.37 and revenues increasing 7.2% to $323.5 million. Total attendance increased 3.6% to 19.3 million guests, box office revenues per patron increased 0.4%, and concession revenues per patron increased 5.6%, but a weak film slate held the company back during the quarter.

On a positive note, Cineplex pays a monthly dividend of $0.125, equating to an annual dividend of $1.50 and giving the stock a yield of about 3.65%. The company has increased its dividend each of the last four years and this streak will likely continue given its healthy stream of free cash flow.

At current levels, Cineplex's stock is approximately 7.5% below its 52-week high and trades at about 35 times its trailing 12 months earnings. Cineplex's multiple is reasonable at 35, but it is intriguing when you see that it shrinks to 21 based on 2015's estimated earnings per share of $1.97.

Which stock should you buy today?

I think Cineplex represents the better long-term investment opportunity today. Its 79% market share makes it an absolute juggernaut in the Canadian market and the company is well positioned to continue growing in all 10 provinces.

Its stock trades at very inexpensive levels based on current and forward earnings estimates and its bountiful 3.65% dividend will provide addition returns to shareholders. Foolish investors should take a closer look and strongly consider making a long-term investment in Cineplex today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:IMAX (IMAX)
2. TSX:CGX (Cineplex Inc.)

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