Cineplex Inc.: Coming to a Portfolio Near You?

Description

Cineplex Inc. (TSX:CGX) is the largest owner and operator of movie theatres in Canada, with 163 theatres and 1,643 screens in all 10 provinces, serving nearly 80 million guests each year. Its stock has been one of the top performers over the last five years, rising more than 150%, but it has underperformed the overall market in 2014, falling approximately 6.8% as the TSX Composite Index has risen approximately 8.6%.

I think this underperformance makes for a great long-term opportunity, so let's take a look at the top three reasons you should invest in Cineplex today.

1. The market leader in Canada

In its second-quarter earnings release on August 6, Cineplex reported an incredible 79% market share in Canada. The company generated much of this growth organically, but it did get a 4% increase following the acquisition of several AMC movie theatres in the second half of fiscal 2012 and a huge 14% jump following its acquisition of Empire Theatres in fiscal 2013. The second- and third-largest market shares are held by Landmark Cinemas with an estimated 10% share and Guzzo Cinemas with an estimated 2% share, but these could be the next two companies on Cineplex's wish list.

2. An inexpensive valuation

At current levels, Cineplex trades at about 35 times trailing-12-months earnings, which may seem high since its five-year average price-to-earnings multiple is 26.3, but it is actually reasonable given the fact that its multiple exceeded 41 in 2011. On a forward basis, the multiple gets much more enticing, as Cineplex's stock trades at just 28.9 times fiscal 2014's estimated earnings per share of $1.42 and only 20.8 times fiscal 2015's estimated earnings per share of $1.97. I think the company's stock could consistently trade at a fair multiple of 35, which would place shares at about $50 by the conclusion of fiscal 2014 and at about $69 by the end of fiscal 2015, representing growth of approximately 22% and 68%, respectively, from today's levels.

3. A large and healthy dividend

Cineplex pays a monthly dividend of $0.125, or $1.50 annually, giving it a bountiful 3.65% yield at current levels. Not only is the dividend large, but it has grown consistently, as the company has raised its dividend in each of the last four years by an average of more than 4%. I think the dividend is very safe and it can continue to grow, because Cineplex generates ample free cash flow, including adjusted free cash flow per share of $2.4047 in the 12-month period ending on June 30, 2014, a 7.7% growth from the 12-month period ending on June 30, 2013.

Should you consider buying in right now?

I think Cineplex represents one of the best investment opportunities in the market today because it holds an incredible market share in Canada, trades at an inexpensive valuation, and has a bountiful 3.65% dividend. Foolish investors should take a closer look and strongly consider initiating long-term positions.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

Category

1. Investing

Date
2025/10/01
Date Created
2014/10/06
Author
jsolitro