Should Cineplex Inc. Be Your Top Buy for 2015?

Description

Cineplex Inc. (TSX: CGX), the largest owner and operator of movie theaters in Canada, has been one of the best performing stocks since the market's lows in 2009, rising about 220%. However, it has widely underperformed the overall market in 2014, rising just 2.8% as the TSX Composite Index has returned over 7.5%.

The stock has gained strength in the final months of the year, rising over 17% since August 4, and I think this is only the beginning of a sustained rally higher, so let's take a look at three of the primary reasons Cineplex could be one of the top performing stocks in 2015.

1. A dominant market share in Canada

Cineplex has one of the highest market shares of any company in any industry in Canada, with an estimated 77% share of the box office market as of September 30. The company has achieved this massive market share both organically and through acquisitions, with one of its most notable purchases coming in June 2013 when it agreed to buy Empire Theatres, the second-largest company in the industry at the time with an estimated 14% market share, for $200 million. The second-largest company in the industry today is Landmark Cinemas, with an estimated 10% market share, so this could be a takeover target for Cineplex in 2015.

2. An inexpensive forward valuation

At today's levels, Cineplex's stock trades at approximately 35.4 times fiscal 2014's estimated earnings per share of $1.28 and 23.6 times fiscal 2015's estimated earnings per share of $1.92. The stock's five-year average price-to-earnings multiple is 26.3, which means it is overvalued based on this year's estimates, but undervalued based on next year's estimates.

I think Cineplex's stock could consistently command a fair multiple of approximately 26, which would place shares around $50 by the conclusion of fiscal 2015, representing upside of more than 10%, and this does not include additional returns from reinvested dividends.

3. A stable and growing dividend

Cineplex has a very stable dividend and this is attributable to its ample free cash flow generation, including adjusted free cash flow of $102.97 million, or $1.64 per share, in the first nine months of fiscal 2014. The company has also shown a strong dedication to increasing its dividend, as it has raised it four times since 2011. Cineplex currently pays a monthly dividend of $0.125 per share, or $1.50 per share annually, which gives it a bountiful 3.3% yield at today's levels, making it both a value and dividend play.

Should you be a buyer of Cineplex today?

Cineplex Inc. has been one of the best performing stocks since the market's lows in 2009, but it has underperformed in 2014. I think this underperformance represents a long-term buying opportunity for investors, because the company has a dominant 77% share of the Canadian box office market, its stock trades at inexpensive forward valuations, and it has a bountiful 3.3% dividend yield at current levels. Foolish investors should take a closer look at Cineplex and strongly consider initiating positions today and adding to them on any weakness provided by the market.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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