Cineplex Inc.'s Profits More Than Double in Q1: Should You Buy Now?

Description

Cineplex Inc. (TSX:CGX), the largest owner and operator of movie theatres in Canada, announced first-quarter earnings before the market opened on May 8, and its stock has responded by rising about 2%. Let's take a closer look at the quarterly results to determine if the stock could head higher from here and whether or not we should consider establishing positions today.

The very strong first-quarter results

Here's a summary of Cineplex's first-quarter earnings results compared with its results in the same period a year ago.

Metric	Q1 2015	Q1 2014
Diluted Earnings Per Share	$0.17	$0.08
Revenue	$289.79 million	$280.02 million

Source: Cineplex Inc.

Cineplex's diluted earnings per share increased 112.5% and its revenue increased 3.5% compared with the first quarter of fiscal 2014. The company's triple-digit percentage increase in earnings per share can be attributed to its net income increasing 107.6% to $10.5 million, which was helped by its total operating expenses increasing just 1.2% to $276.86 million.

Its slight revenue growth can be attributed to its total food service revenue increasing 4.2% to $90.79 million. Its total media revenue increased 19.4% to $29.07 million. Its total gaming and other revenues increased 12.9% to $13.89 million, which more than offset the negative impact of its box office revenues decreasing 0.1% to $156.04 million.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Attendance increased 1.5% to 17.54 million

2. Box office revenues per patron decreased 1.5% to $8.90
3. Concession revenues per patron increased 2.6% to $5.18
4. Cineplex Media revenues increased 21.9% to $20.01 million
5. Cineplex Digit Media revenues increased 14.2% to $9.06 million
6. Adjusted earnings before interest, depreciation, and amortization (EBITDA) increased 30.3% to $40.2 million
7. Adjusted EBITDA margin expanded 290 basis points to 13.9%
8. Adjusted free cash flow increased 49.5% to $27.5 million
9. Adjusted free cash flow increased 49.3% to $0.436 per share
10. Ended the quarter with $16.64 million in cash and cash equivalents, a decrease of 51.6% from the beginning of the quarter

Cineplex also announced a 4% increase to its annual dividend to $1.56 per share. This increase will be effective with the May dividend, which will be paid in June.

Should you be a buyer of Cineplex today?

The first quarter was very strong for Cineplex, so I think its stock has responded correctly by rising about 2%. I also think this is only the beginning of a sustained rally to new 52-week highs because the stock still trades at favourable forward valuations and has a high dividend yield.

First, Cineplex's stock trades at just 27.5 times fiscal 2015's estimated earnings per share of $1.75 and only 22.5 times fiscal 2016's estimated earnings per share of $2.14, both of which are very inexpensive compared with the industry average price-to-earnings multiple of 37.9. I think the company's stock could consistently command a fair multiple of at least 30, which would place its shares around $52.50 by the conclusion of fiscal 2015 and upwards of $64 by the conclusion of fiscal 2016, representing upside of more than 8% and 32%, respectively, from today's levels.

Second, Cineplex now pays an annual dividend of $1.56 per share, giving its stock a 3.2% yield at current levels. It is also important to note that the company has increased its dividend for five consecutive years, and its consistent free cash flow generation could allow this streak to continue for the next several years.

With all of the information provided above in mind, I think Cineplex represents the best long-term investment opportunity in the entertainment industry today. Foolish investors should take a closer look and strongly consider beginning to scale in to positions.

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1. TSX:CGX (Cineplex Inc.)

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