3 Reasons Why Cineplex Inc. Should Be Added to Your Portfolio

Description

Cineplex Inc. (TSX:CGX), the largest owner and operator of movie theatres in Canada, has widely outperformed the overall market in 2015, rising over 9% as the TSX Composite Index has returned just over 2.5%, and I think it could continue to do so over the next several years. Let's take a look at three of the primary reasons why this could happen and why you should establish a position today.

1. Triple-digit earnings growth to support a near-term rally

Cineplex released very strong first-quarter earnings results before the market opened on May 8, and its stock has responded by rising over 3.5% in the weeks since. Here's a breakdown of 10 of the most notable statistics from the report compared with the year-ago period:

1. Net income increased 107.6% to $10.5 million
2. Diluted earnings per share increased 112.5% to $0.17
3. Revenue increased 3.5% to $289.79 million
4. Box office revenues decreased 0.1% to $156.04 million
5. Food service revenues increased 4.2% to $90.79 million
6. Attendance increased 1.5% to 17.54 million
7. Box office revenues per patron decreased 1.5% to $8.90
8. Concession revenues per patron increased 2.6% to $5.18
9. Adjusted earnings before interest, depreciation, and amortization increased 30.3% to $40.2 million
10. Adjusted free cash flow increased 49.5% to $27.5 million

2. The stock trades at inexpensive forward valuations

At today's levels Cineplex's stock trades at just 27.9 times fiscal 2015's estimated earnings per share of $1.76 and only 22.7 times fiscal 2016's estimated earnings per share of $2.16, both of which are inexpensive compared with its long-term growth potential.

I think Cineplex’s stock could consistently command a fair multiple of at least 30, which would place its shares upwards of $52.75 by the conclusion of fiscal 2015 and upwards of $64.75 by the conclusion of fiscal 2016, representing upside of more than 7% and 32%, respectively, from current levels.

3. A high dividend yield and five consecutive years of increases

Cineplex pays a monthly dividend of $0.13 per share, or $1.56 per share annually, giving its stock a 3.2% yield at today’s levels. The company has also increased its annual dividend payment for five consecutive years, making it one of the top dividend-growth plays in the industry, and its consistent free cash flow generation could allow this streak to continue for another five years at least.

Should you invest in Cineplex today?

I think Cineplex could outperform the overall market in both the short and long term. It has the support of triple-digit first-quarter earnings growth, its stock trades at favourable forward valuations, and it has a 3.2% dividend yield with a track record of increasing its annual payment. Foolish investors should take a closer look and strongly consider establishing positions today.

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1. Dividend Stocks
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1. TSX:CGX (Cineplex Inc.)

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jsolitro