Cineplex Inc. Reports Record Revenues in Q2: Could its Stock Rise to New All-Time Highs?

Description

Cineplex Inc. (TSX:CGX), the largest owner and operator of movie theatres in Canada, announced second-quarter earnings results before the market opened on August 13, and its stock responded by rising just over 1% in the day's trading session. The company's stock now sits just 5.5% below its all-time high of $51.01 reached back in May of this year, so let's take a closer look at the results to determine if this could be the start of a sustained rally to new highs.

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Popular film releases lead to very strong results

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

Metric	Q2 2015	Q2 2014
Earnings Per Share	$0.40	$0.37
Revenue	$345.5 million	$323.5 million

Source: Cineplex Inc.

Cineplex's earnings per share increased 8.1% year over year to $0.40 and its revenue increased 6.8% year over year to an all-time quarterly record $345.5 million. The company's very strong earnings-per-share growth can be attributed to its net income increasing 9.8% to $25.5 million, which was helped by its total costs of operations increasing just 6.3% to $304.25 million.

Its strong revenue growth can be attributed to its total attendance increasing 2% to 19.7 million, primarily due to the release of three very popular films during the quarter as well as its box office revenues per patron increasing 0.5% to an all-time quarterly record of $9.45 and its concession revenues per patron increasing 8.3% to an all-time quarterly record of $5.50.

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

1. Box office revenues increased 2.6% to $186.2 million
2. Food service revenues increased 10.6% to $108.4 million
3. Cineplex Media revenues increased 15.2% to $25.32 million
4. Cineplex Digital Media revenues increased 7.6% to $9.7 million
5. Other revenues increased 21.9% to $15.92 million
6. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 9.9% to a record $65.3 million
7. Adjusted EBITDA margin expanded 50 basis points to 18.9%
8. Net cash provided by operating activities increased 34.6% to $54.43 million
9. Adjusted free cash flow decreased 15.8% to $41 million
10. Ended the quarter with $23.7 million in cash and cash equivalents, an increase of 42.4% from the beginning of the quarter

Could Cineplex’s stock rally to new all-time highs?

It was an excellent quarter overall for Cineplex, so I think its stock responded correctly by moving higher. I also think this could be the start of a sustained rally to new all-time highs because its stock still trades at inexpensive forward valuations and has a dividend yield of over 3% with an extensive track record of increasing its annual payment, which will continue to make it popular with income investors.

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First, Cineplex’s stock trades at just 28.3 times fiscal 2015’s estimated earnings per share of $1.70 and only 22.8 times fiscal 2016’s estimated earnings per share of $2.11, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 29.6 and the industry average multiple of 47.7.

Second, Cineplex pays a monthly dividend of $0.13 per share, or $1.56 per share annually, which gives its stock a 3.2% yield at today’s levels. It is also important to note that the company has increased its annual dividend payment for four consecutive years, and its 4% increase in May puts it on pace for 2015 to mark the fifth consecutive year with an increase. Its strong operational performance could allow this streak to continue for the next several years.

With all of the information 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.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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jsolitro

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