The Case to Buy Cineplex Inc. Today

Description

Cineplex Inc. (TSX:CGX) is the largest owner and operator of movie theatres in Canada, with 162 theatres comprising of 1,652 screens that serve approximately 74 million guests annually.

Its stock has widely outperformed the overall market in 2015, rising over 10% as the S&P/TSX Composite Index has fallen about 8%, and I think it could continue to do so in both the short and long term. Let's take a look at three of the primary reasons why I think this will happen and why you should buy the stock today.

1. Its double-digit earnings growth could support a rally

On the morning of November 10, Cineplex released very strong earnings results for its three- and nine-month periods ending on September 30, 2015, but its stock has responded by falling a little over 1% in the trading sessions since. Here's a summary of 10 of the most notable statistics from the first nine months of fiscal 2015 compared with the same period in fiscal 2014:

1. Net income increased 30% to $57.4 million
2. Earnings per share increased 28.6% to $0.90
3. Total revenue increased 6.8% to $963.6 million
4. Box office revenues increased 2.9% to $514.81 million
5. Food service revenues increased 9.9% to $304.65 million
6. Media revenues increased 12.7% to $98.39 million
7. Gaming and other revenues increased 21.3% to $45.72 million
8. Adjusted earnings before interest, taxes, depreciation, and amortization increased 19% to $164.6 million
9. Adjusted free cash flow increased 1.3% to $104.3 million
10. Attendance increased 3.7% to 56.6 million

2. Its stock trades at inexpensive forward valuations

At today's levels, Cineplex's stock trades at 32.1 times fiscal 2015's estimated earnings per share of $1.54, which is inexpensive compared with its trailing 12-month price-to-earnings multiple of 35. It also trades at just 24.6 times fiscal 2016's estimated earnings per share of $2.01 and only 21.1 times fiscal 2017's estimated earnings per share of $2.34, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 30.4 and the industry average multiple of 46.1.

With the average multiples above in mind, I think Cineplex's stock could consistently trade at a fair multiple of at least 30, which would place its shares upwards of $60 by the conclusion of fiscal 2016 and upwards of $70 by the conclusion of fiscal 2017, representing upside of more than 21% and 41%, respectively, from current levels.

3. It has a high dividend and is dividend-growth play

Cineplex pays a monthly dividend of $0.13 per share, or $1.56 per share annually, giving its stock a 3.15% yield, and this is more than four times the industry average yield of 0.65%. It has also raised its dividend for five consecutive years, and its strong financial performance could allow this streak to continue in 2016.

Should you add Cineplex to your portfolio?

Cineplex represents one of the best long-term investment opportunities in the market today, so Foolish investors should strongly consider beginning to scale in to positions over the next couple of trading sessions.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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