Can Cineplex Inc.'s Record Q4 Results Drive its Shares Even Higher?

Description

Cineplex Inc. (TSX:CGX), the largest owner and operator of movie theatres in Canada, announced record fourth-quarter earnings results on the morning of February 9, and its stock has responded by rallying over 5%. Let's take a closer look at the quarterly results and the fundamentals of the stock to determine if it could continue higher from here and if we should be long-term buyers today.

Record attendance leads to record earnings and revenues

Here's a summary of Cineplex's fourth-quarter earnings results compared with what analysts had projected and its results in the same period a year ago.

Metric	Q4 2015 Actual	Q4 2015 Expected	Q4 2014 Actual
Adjusted Earnings Per Share	$0.64	$0.63	$0.51
Revenue	$407.37 million	$395.79 million	$332.21 million

Source: Financial Times

Cineplex's adjusted earnings per share increased 25.5% and its revenue increased 22.6% compared with the fourth quarter of fiscal 2014. These record results can be attributed to its total attendance increasing 7.1% to a record 20.38 million, driven by the "record-breaking success of *Star Wars: The Force Awakens*," which led to its box office revenues increasing 13.8% to a record $196.29 million and its food service revenues increasing 16.4% to a record $113.8 million.

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

1. Box office revenues per patron increased 6.3% to a record $9.63
2. Concession revenues per patron increased 8.6% to a record $5.58
3. Concession margin per patron increased 9% to $4.36
4. Media revenues increased 17.9% to $55.26 million
5. Gaming and other revenues increased 177.9% to $42.02 million

6. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 35.9% to a record $85.16 million
7. Adjusted EBITDA margin improved 200 basis points to 20.9%
8. Adjusted free cash flow increased 24.3% to $52.87 million

Can the rally continue and should you be a buyer?

It was a phenomenal quarter overall for Cineplex, so I think its stock has responded correctly by rallying. I also think the stock could continue higher from here and that it represents a very attractive long-term investment opportunity today for two reasons in particular.

First, its stock trades at inexpensive forward valuations. It trades at 31.8 times fiscal 2015's adjusted earnings per share of $1.55, which seems fair, but it trades at just 24.5 times fiscal 2016's estimated earnings per share of $2.01 and only 21 times fiscal 2017's estimated earnings per share of $2.35, both of which are inexpensive compared with its five-year average multiple of 30.6.

With its five-year average multiple and its estimated 22.8% long-term earnings growth rate in mind, I think the company's stock could consistently trade at a fair multiple of about 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 today's levels.

Second, Cineplex has a great dividend. It currently pays a monthly dividend of $0.13 per share, or $1.56 per share annually, which gives its stock a high and safe yield of about 3.2%. Investors must also note that the company has raised its annual dividend payment for five consecutive years, and its 4% hike in May 2015 has it on pace for 2016 to mark the sixth consecutive year with an increase. I think its record amount of free cash flow could allow it to announce another hike in the very near future.

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

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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