3 Reasons Why Cineplex Inc. Is Canada's Best Entertainment Stock

Description

Cineplex Inc. (TSX:CGX) is Canada's largest owner and operator of movie theatres with 162 theatres from coast to coast that serve approximately 77 million guests annually, and I think it is the market's top entertainment stock for three primary reasons. Let's take a closer look at these reasons to see if you agree and if you should take it one step further by initiating a position today.

1. Its record earnings results in 2015 could support a continued rally

On February 9, Cineplex released record financial results for its fiscal year ended on December 31, 2015, and its stock has responded by rising over 3% in the trading sessions since. Here's a quick breakdown of 10 of the most notable statistics from fiscal 2015 compared with fiscal 2014:

1. Adjusted earnings per diluted share increased 29.2% to a record $1.55
2. Total revenues increased 11% to a record $1.37 billion
3. Box office revenues increased 5.7% to a record $711.1 million
4. Box office revenues per patron increased 1.1% to a record $9.23
5. Food service revenues increased 11.6% to a record $418.4 million
6. Concession revenues per patron increased 6.7% to a record $5.43
7. Media and other revenues increased 29.1% to a record $241.4 million
8. Adjusted earnings before interest, taxes, depreciation, and amortization increased 24.3% to a record $249.8 million
9. Adjusted free cash flow increased 8.1% to $157.2 million
10. Attendance increased 4.6% to a record 77.02 million

2. It's a value play

At today's levels, Cineplex's stock trades at just 24.3 times fiscal 2016's estimated earnings per share of $2.01 and only 20.8 times fiscal 2017's estimated earnings per share of $2.35, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 30.3.

With its five-year average multiple and its estimated 19.4% long-term earnings growth rate in mind, I think Cineplex'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 over 22% and 43%, respectively, from today's levels.

3. It has a great dividend

Cineplex pays a dividend of $0.13 per share monthly, or $1.56 per share annually, which gives its stock a high and very safe yield of approximately 3.2%.

It is also important for investors to make two notes.

First, Cineplex has raised its annual dividend payment for five consecutive years, and its 4% hike in May 2015 puts it on pace for 2016 to mark the sixth consecutive year with an increase.

Second, over the last five years the company has raised its dividend in May, and I think its increased amount of free cash flow will allow it to continue this tradition in 2016.

Does Cineplex belong in your portfolio?

I think Cineplex represents one of the best long-term investment opportunities in the market and the best long-term investment opportunity in the entertainment industry, so all Foolish investors should strongly consider making it a core holding today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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