Cineplex Inc.: The Best Consumer Discretionary Stock Not in the S&P/TSX 60

Description

If you went to your local movie theatre in January, there's a high probability you were among the thousands of Canadians who've shelled out good money in 2016 to watch *The Force Awakens*, the latest in the *Star Wars* franchise. The film is projected to generate ticket sales of $2.2 billion, the third-highest grossing motion picture release behind only *Titanic* and *Avatar*.

Movies are big business, and no one does it better than **Cineplex Inc.** (TSX:CGX). Fool contributor Joseph Solitro does a good job highlighting some of the positives of owning Canada's largest operator of movie theatres. There's no need for me to repeat those positives.

Instead, I'm left scratching my head as to why a company whose stock has beaten the S&P/TSX 60 by 17 percentage points on an annualized basis over the past five years, and 10 percentage points over the last 10, is nowhere to be found in the list of 60 stocks that constitute the index.

You would think Cineplex would be a keeper, especially since there are only six consumer discretionary stocks in the 60-stock index compared to 10 financials and 14 from the energy sector.

The official reason is that the S&P/TSX 60 is a stock index representative of 60 of the most valuable companies in Canada; David Milstead of the *Globe and Mail* wrote about this very subject in January 2014, suggesting that not every company that has a market cap above $8 billion makes it into the index—they have rules.

At the time of Milstead's article, there were 12 companies with market caps above $8 billion that didn't meet the Canadian S&P Index Committee's criteria, thus allowing 12 smaller companies into the mix, some of which are right around Cineplex's current market cap of $3.2 billion.

How much would you have made over the past five years if you had invested $10,000 in the **iShares S&P/TSX 60 Index ETF** (TSX:XIU), $10,000 in the **iShares Core S&P/TSX Capped Composite Index ETF** (NYSE:XIC), and $10,000 in Cineplex, which is part of the broader 239-stock index?

Well, $30,000 would now be worth $44,558, an annualized return of 8.2%. That's the good news. The bad news—at least if you're a passive investor—is that Cineplex generated all but 7% of the total return.

So, what's an investor to do?

Both indices are bound to make a comeback at some point once oil prices get off the mat. Buying Cineplex without any diversification beyond a single stock is, logically speaking, a fool's errand—except when you consider Cineplex's track record.

In the past decade it has experienced just one year with a negative return—down 7.2% in 2006. That compares with three down years for the S&P/TSX 60, which lost 33% in 2008, 8.7% in 2011, and 8.3% in 2015, an average decline of 18.3%, more than double Cineplex's one losing year.

It's for this reason why I feel Cineplex is indeed the best consumer discretionary stock not in the S&P/TSX 60—and that's a darn shame.

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1. TSX:CGX (Cineplex Inc.)

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