Cineplex Inc. Announces Record Q1 Results and a Dividend Hike: Should You Buy Now?

Description

Cineplex Inc. (TSX:CGX), Canada's largest owner and operator of movie theatres, announced record first-quarter earnings results and a dividend increase this morning, but its stock has responded by remaining relatively unchanged. Let's break down the results and the fundamentals of its stock to determine if we should use this lack of movement as a long-term buying opportunity, or if there is an underlying factor that is holding it back.

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Record attendance leads to an incredible financial performance

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

Metric	Q1 2016 Actual	Q1 2016 Expected	Q1 2015 Actual
Earnings Per Diluted Share	$0.34	$0.36	$0.17
Revenue	$378.9 million	$362.9 million	$289.8 million

Source: Financial Times

Cineplex's earnings per diluted share increased 100% and its revenue increased 30.8% compared with the first quarter of fiscal 2015. These incredible results can be attributed to the strong performance of its film slate, which led to an all-time quarterly attendance record of 20.6 million, a year-over-year increase of 17.4%, and record first-quarter box office revenues of $192.6 million, a year-over-year increase of 23.5%.

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

1. Net income increased 103.8% to $21.5 million
2. Food service revenues increased 23.4% to a first-quarter record $112 million
3. Box office revenues per patron increased 5.2% to a first-quarter record $9.36

4. Concession revenues per patron increased 5% to a first-quarter record $5.44
5. Gaming and other revenues increased 196.8% to $41.2 million
6. Media revenues increased 13.7% to a record $33.1 million
7. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 42% to a first-quarter record $57.1 million
8. Adjusted EBITDA margin improved 120 basis points to 15.1%
9. Adjusted free cash flow increased 60.1% to $44 million
10. Adjusted free cash flow per share increased 59.6% to $0.696

Dividend hike? Yes, please

Cineplex also announced a 3.8% increase to its dividend to $0.135 per share monthly, and this increase is effective for its May dividend, which will be paid in June.

Should you buy Cineplex today?

It was a phenomenal quarter in every way for Cineplex, so I think its stock should have responded by soaring. With this being said, I think the lack of movement in its stock represents a great buying opportunity for the long term for two primary reasons.

First, it's undervalued. Cineplex's stock trades at just 24.8 times fiscal 2016's estimated earnings per share of $2.02 and only 21.6 times fiscal 2017's estimated earnings per share of $2.31, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 30 and the industry average multiple of 38.2. These multiples are also inexpensive given the company's estimated 19.4% long-term earnings growth rate.

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Second, it has a high dividend and is a dividend-growth play. Cineplex now pays an annual dividend of $1.62 per share, 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 two dividend hikes since the start of 2015, including the one it announced today and its 4% hike in May 2015, have it on pace for 2016 to mark the sixth consecutive year with an increase.

With all of the information provided above in mind, I think Cineplex is a strong buy. All Foolish investors should strongly consider initiating positions today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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