3 Reasons Why Cineplex Inc. Belongs in Every Portfolio

Description

Cineplex Inc. (TSX:CGX) is the largest owner and operator of movie theatres in Canada with 163 theatres from coast to coast and an incredible 79.5% market share. Its stock has more than doubled over the last five years, making its shareholders very happy, and I think it's still a strong buy today for three primary reasons. Let's take a closer look at these reasons, so you can determine if you agree and should buy the stock today.

1. Its record financial performance could support a higher share price

On the morning of May 3, Cineplex released record first-quarter earnings results, and its stock has responded by making a slight move higher in the trading sessions since. Here's a breakdown of 12 of the most notable statistics from the report compared with the same period a year ago:

1. Attendance increased 17.4% to an all-time quarterly record of 20.6 million
2. Net income increased 103.8% to $21.5 million
3. Earnings per diluted share increased 100% to $0.34
4. Total revenues increased 30.8% to a record $378.9 million
5. Box office revenues increased 23.5% to a record $192.6 million
6. Box office revenues per patron increased 5.2% to a first-quarter record $9.36
7. Food service revenues increased 23.4% to a first-quarter record $112 million
8. Concession revenues per patron increased 5% to a first-quarter record $5.44
9. Gaming and other revenues increased 196.8% to $41.2 million
10. Media revenues increased 13.7% to a record $33.1 million
11. Adjusted earnings before interest, taxes, depreciation, and amortization increased 42% to a record $57.1 million
12. Adjusted free cash flow per share increased 59.6% to a record $0.696

2. It trades at inexpensive valuations

At today's levels, Cineplex's stock trades at just 25.2 times fiscal 2016's estimated earnings per share of $1.99 and only 22 times fiscal 2017's estimated earnings per share of $2.28, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 29.9 and the industry average multiple of 37.5.

With the multiples above and its estimated 18.6% 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 around $60 by the conclusion of fiscal 2016 and upwards of $68 by the conclusion of fiscal 2017, representing upside of more than 19% and 35%, respectively, from today's levels.

3. It's a high-dividend, dividend-growth, and income play

Cineplex pays a monthly dividend of $0.135 per share, or $1.62 per share annually, which gives its stock a high and very safe yield of about 3.2% at today's levels.

Investors should also make two notes.

First, Cineplex's two dividend hikes since the start of 2015, including its 4% hike in May 2015 and its 3.8% hike earlier this month, have it on pace for 2016 to mark the sixth consecutive year in which it has raised its annual dividend payment.

Second, I think the company's very strong free-cash-flow growth, including its aforementioned 59.6% year-over-year growth to a record $0.696 per share in the first quarter, will allow its streak of annual dividend increases to continue for the next several years.

Is now the time for you to buy shares of Cineplex?

I think Cineplex belongs in every portfolio, so take a closer look and strongly consider adding it to yours today.

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1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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