# Is Cineplex Inc. the Perfect Forever Stock?

## Description

Remember about a decade ago when pundits were predicting that folks would stop going to the movies?



The theory, which seems pretty laughable with the benefit of hindsight, went something like this: high-definition television sets, surround sound systems, and cheap DVDs gave people a movie-like experience in the comfort of their own homes. It wasn't even that hard to illegally download the latest movies before they made it onto DVD.

If anything, these threats have gotten worse over the years. DVDs have been replaced by **Netflix**, a cheap service that offers thousands of movies and TV shows on demand, whenever you want. TVs have gotten larger, better, and cheaper. People streaming sports has also become quite popular.

And yet people keep going to the movies. Not only are movie theatres protecting their market share, but they're actually increasing it. In an era where there are more entertainment options than ever, revenue for **Cineplex Inc.** (TSX:CGX), Canada's largest chain of movie theatres with an 80% market share nationwide, jumped from under $1 billion in 2011 to nearly $1.5 billion over the last 12 months.

How is Cineplex doing it? The company's combination of innovation, expansion, and shrewd management has made it one of Canada's top stocks–it's a company that would look terrific in almost every portfolio.

### Innovation

A few years ago, Cineplex's management team realized being a traditional movie theatre wasn't going to cut it any longer, so changes were made.

Ads were placed on the screen before movies started. Traditional popcorn stands remained, but they were augmented by other food choices. Some theatres got full-service restaurants and separate rooms filled with video games and other carnival favourites. The main business continued to be movies themselves, but the company has ventured into showing other events like sports or The Oscars.

One of the most important changes was its partnership with **Bank of Nova Scotia**, which introduced the Cineplex-branded Scene line of credit and debit cards. These cards allow movie lovers to accumulate points that can be spent on tickets or snacks. The Scene program is so popular that 7.3 million Canadians called themselves members at the end of 2015.

The other big innovation was Cineplex leveraging its digital advertising expertise into a legitimate business. The company has quietly become one of Canada's leading providers in the sector, scoring contracts to put up digital displays in places like **McDonald's**, Tim Hortons, and **Wal-Mart**.

In short, Cineplex has done a terrific job expanding from a movie theatre to a full media company, and there's still potential to get even bigger.

**A great dividend**

Cineplex has become one of Canada's premier dividend-growth stocks.

In 2010 the company paid a dividend of $1.26 per share annually. In 2015 that increased to $1.54 per share, growth of more than 22%. An increase has already been announced for 2016: the dividend is up to $1.62 per share.



Dividend growth should continue at a good clip in the future. The payout ratio has only crept up from 56% in 2010 to 62% for 2015. And if earnings continue to head higher, it'll be easy to hike the dividend each year while maintaining the payout ratio.

**Valuation**

There's only one thing stopping me from declaring Cineplex one of Canada's best forever stocks–the valuation.

Over the last 12 months, the company has earned $2.30 per share, which puts it at 21.8 times trailing earnings. Sure, that's a little expensive compared to the overall market, but not excessively so. There's certainly an argument to be made about paying up for quality.

But forward earnings don't look quite as rosy. Remember, the new *Star Wars* movie was terrific for the bottom line–a result that won't get repeated in the near future. Analysts aren't predicting much of a drop, but they're still expecting earnings to fall to $1.99 per share for 2016. Earnings won't recover until 2017, when they're projected to increase to $2.31 per share.

That's the big issue with Cineplex right now. It's a great company without a great valuation. If investors can get past that, it sure looks to me like the company would look good in a portfolio for years to come.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:CGX (Cineplex Inc.)

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