4 Reasons Why I Remain Bullish on Cineplex Inc.

Description

Every time I think about **Cineplex Inc.** (TSX:CGX), I'm reminded of how wrong I was about it. All I saw was the movie theatre business, a model hyper-dependent on Hollywood to make it succeed. The reality is, I'm incredibly bullish on Cineplex and believe it has many years of growth ahead of it.

There are a few reasons why I am so bullish.

The first is, of course, the movies. Hollywood has been delivering blockbuster after blockbuster. There is the never-ending supply of *Star Wars* and *Marvel* movies. *Jason Bourne* just earned US$6 million over the weekend across all North American theatres. Despite how repetitive sequel after sequel is, people are going in droves to watch.

And the numbers show it. In its Q1 earnings results, the company revealed that it had a 17.4% year-over-year increase to 20.6 million in attendance. That's absolutely insane growth. To go along with that, its food service revenues increased to $112 million. All told, it had record first-quarter box office revenue of $192.6 million, an increase of 23.5%.

People love the movies…

But as I said above, there's so much more to Cineplex than just the movies. The next reason I'm bullish is because of its Rec Room initiative. Recognizing that movies have a defined start and stop time, Cineplex is rolling out large multi-purpose rooms for people to come and spend an undefined amount of time. Families can come, play video games, watch sports, eat and drink, and leave whenever they want. As the company rolls more of these out, I expect food service revenue to continue rising.

The third reason has to do with the realization that Cineplex is a media company, not just a theatre company. Have you ever sat in the theatre and seen ads for products before the previews? Cineplex makes money that way. It now sells those same types of ads for TimsTV, a digital menu board that is in 2,300 Tim Hortons locations. It's also rolling these out in A&W restaurants and will soon be integrating them in Dairy Queens.

All of these examples of growth and diversification lead to my final reason for being bullish: the dividend. The company pays out a comfortable 3.18% yield, which comes out to $0.14 per month.

But here’s why you should be even more excited about the dividend. Between 2010 and 2015 the dividend grew from $1.26 to $1.54, a 22% increase. The dividend grew again in 2016 to $1.62 per share. Management is taking the increased earnings it’s generating and redistributing it generously to investors. So long as the earnings continue rising, I expect the dividend will also rise because its current payout ratio of 62% is more than manageable.

Here’s the only negative: it’s expensive. Cineplex trades at a costly 22.13 P/E. However, because I believe its other initiatives will continue to grow, I am not to dissuaded by the price.

CATEGORY

1. Dividend Stocks
2. Investing

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