Growth Investors: Forget Cineplex Inc. and Consider Cinemark Holdings, Inc.

Description

For investors considering the media and entertainment space as a cyclical growth opportunity, the biggest and most recognizable name most Canadians think of first is **Cineplex Inc.** (TSX:CGX). Cineplex is the largest cinema chain in Canada and is typically used as the domestic benchmark for film exhibition, as Cineplex has dominated the market via numerous acquisitions and industry consolidation efforts over the years. Cineplex remains one of the more well-run cinema chains in North America, and I'm going to take another look at just how much value exists with Cineplex and if better opportunities exist for investors in this space.

I'll equate Cineplex to a comparable American competitor, **Cinemark Holdings, Inc.** (NYSE:CNK), which I believe provides far superior value for an investor considering the media and entertainment business as a portfolio holding.

Fundamentals

Taking a look at these two companies from a fundamentals standpoint, what is interesting is how similar Cineplex and Cinemark are in terms of market capitalization ($3.2 billion vs. $4.4 billion) and dividend yield (3.4% vs. 3.1%). The similarity in the respective size and yield of these companies is pretty much where the comparison ends.

From an operating market standpoint, the two firms operate in unique markets. While Cineplex operates in 10 Canadian provinces, what is interesting about Cinemark is the company's unique (and significant) exposure to South America. The theatre chain operates in Brazil, Argentina, Chile, Colombia, Peru, Ecuador, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, Guatemala, Paraguay, Curacao and Bolivia, in addition to the United States, which remains its largest market.

From a growth standpoint, Cinemark stands to benefit from reduced competition in these markets, as **Amazon**, **Netflix**, and other media companies have much lower market penetration rates in South America. These countries are also extremely profitable, which is reflected in the fact that despitesimilar market capitalizations, Cinemark actually churns out nearly three times as much nominal profitas Cineplex each year.

This is reflected in the valuation ratios of each company. Cineplex's bloated price-to-earnings (P/E) ratio of 39.4, price-to-book (P/BV) ratio of 4.3, and price-to-cash flow (P/CF) ratio of 14.4 are extremely high when you compare these values to Cinemark's P/E ratio of 16, P/BV of 3.4, and P/CF of 8.2.

In short, investors get essentially twice the value for each investment dollar with Cinemark in addition to a significantly better growth profile than that of Cineplex.

What about Cineplex?

Fellow Fool contributor Will Ashworth has remained bullish on the ability of Canadian cinemas to churn out profits and certainly seems to have a very good handle on the media and entertainment business in Canada, given his family's experience in operating cinemas. The arguments made for a merger in his recent article notwithstanding (further consolidation would likely benefit Cineplex over the long run), I remain skeptical of the ability of the Cineplex brand to command additional dollars from the average Canadian consumer, who may want to capitalize on the value of their Netflix, Amazon Video, and Hulu subscriptions (not to mention the less-savoury download options many movie aficionados have turned to in recent years due to rising movie ticket prices).

Stay Foolish, my friends.

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