It’s Time to Buy the Dip in Cineplex Inc. Stock

Description

This is it! This is the dip you’ve been waiting for. If you have kept watch on **Cineplex Inc.** (TSX:CGX) stock, you would have noticed that it is very strong-willed in maintaining a high share price.

It can’t be helped. Cineplex is one of the top brands in Canada, and the business continues to grow at a nice pace. As a result, the stock tends to command a premium multiple.

Cineplex shares dipped roughly 7.4% from the recent high in May. Even after the dip, the shares aren’t exactly cheap. At roughly $50 per share, Cineplex trades at a multiple of about 32! Arguably, that multiple is supported by estimated high earnings growth.

Some analysts believe the business will grow its earnings per share at a compound annual growth rate of almost 29% from the end of 2016 through 2019.

Cineplex’s business

Cineplex is an entertainment and media company which operates in the sectors of film entertainment and content, amusement and leisure, and media.

Cineplex serves 75 million guests annually through its 1,677 screens in 164 theatres across the country. It has ~78% of the country’s box office market share.

Last year, Cineplex generated nearly $1.48 billion of revenue and roughly $80 million of net income. The box office contributed roughly $712 million (or ~48%) of its revenue.

This revenue will fluctuate depending on the quality and quantity of films released throughout the year.

Other sources of revenue include offering quick food services at its theatres, which consist of its in-house brands such as Outtakes and YoYo's and accounted for ~28% of its 2016 revenue.

Where will Cineplex's growth come from?

Cineplex is trying out different concepts to expand its offerings. In September 2016, in Edmonton, Alberta, it opened the first location of The Rec Room, which offers dining, live entertainment, and amusement gaming experiences all in one place. Early results have been positive, and Cineplex is constructing three more locations with two expected to open this year.

Additionally, Cineplex has an online eSports platform, Worldgaming.com, which provides online video-game tournaments for avid gamers and programming for a broad-based community.

Cineplex's premium offerings, such as 3D, UltraAVX, and D-BOX, at the theatres help boost revenue as well. In 2016, these premium-priced products accounted for 46.1% of the box office revenues (or ~22% of total revenues). In response to the growing demands, Cineplex has been steadily upgrading with these offerings at its theatres.

Let's not forget that Cineplex is also a joint venture partner in SCENE, which is the country's biggest entertainment loyalty program, and allows its members to get additional discounts and earn points towards free movies.

Investor takeaway

Although Cineplex stock is still not cheap, the pullback gives an opportunity for investors to start building a position in the quality brand. A recent **Thomson Reuters** report has a 12-month mean price target of $56.50 per share on the stock, which represents ~13% of upside potential and a total returns estimate of ~16% in the near term after accounting for its 3.3% dividend yield.

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