Newsletter / Issue Eleven / October 2016

Exhibitor Valuations

On the home page of the Dodona Research website there is a link to a modest spreadsheet, updated each year, containing a valuation tool for exhibition stocks.

Showing the number of shares in issue at the last year end, a share price which can be updated by users, and net debt on the balance sheet, it calculates the enterprise value of any of the stocks shown for any given share price. As it also includes EBITDA for the most recent years, the EV/EBITDA multiple is shown too.

Earnings and dividend per share also feature on the sheet, together with automatically calculated earnings multiples and dividend yields.

The latest sheet can be found at
http://dodona.co.uk/exhibition_stocks.html

Current valuations are as follows.

Exhibition Stock Valuations (EV/EBITDA)

	October 25 2016
PVR	19.63
Major Cineplex	15.85
INOX Leisure	14.83
Kinepolis Group	14.74
Cineplex	14.63
Cineworld Group	12.50
AMC Entertainment Holdings	10.49
Cinemark Holdings	9.63
Carmike Cinemas	9.20
Regal Entertainment Group	9.00

The highest rated companies are those in still fast-growing markets: PVR and INOX in India, and Major Cineplex in Thailand. In the case of the Belgian company, Kinepolis, it can be said that the company owns many of the properties from which it operates. This makes the multiple higher than it would be if it leased its cinemas as most groups do.

To state the obvious, it is clear that valuations are quite generous at present. The data below shows how multiples have changed over time. The table is restricted to companies who have been included in the analysis for the whole period but less comprehensive data relating to others tells much the same story.

EV/EBITDA Multiples 2012-2016

	July 2012	April 2015	October 2016
Cinemark	8.01	11.02	9.63
Regal	7.68	9.57	9.00
Cineplex	11.48	14.48	14.63
Kinepolis	7.67	15.44	14.74

That story is that the expansion in valuations over most of the current decade appears to have gone into reverse. While central bankers talk about the possibilities of negative interest rates to keep the economy going (and asset prices up), markets are clearly sceptical.

What to do in this environment? If we were investors in the sector, we would be looking hard at free cashflow. Many companies are investing significantly in large screen formats, motion seats, and luxury recliner seating. Is there going to be enough money left over to pay the dividends that are the main reason to invest in these companies? After all they operate, as far as the mature markets of North America and Europe are concerned, in a market that is growing comparatively slowly.

In terms of an expected return profile, these stocks are arguably similar to inflation-linked government securities. Luckily these currently offer negative real yields, so high valuations may be safe for now.

Further information:
www.dodona.co.uk
customer.service@dodona.co.uk