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Exhibition Stocks

Last year we published a comparison of the valuations of publicy-quoted exhibitors (at www.dodona.co.uk/stocks.htm). With 2012 financials now reported we have just updated it; the analysis below highlights the main changes in the past nine months.

All but one, Cinema City, of the stocks featured have seen a rise in share price. In the table below the Cinema City share price has been converted from zlotys (the company is quoted on the Warsaw stock exchange) to €, the currency the company accounts in. The drop in the share price over the last nine months was actually somewhat larger in zlotys than in €, but changes in the exchange rate worked in favour of Eurozone investors.

Share Prices

	12 July 2012	18 April 2013	% ch.
Carmike	14.74	16.11	9.3
Cinemark	23.14	28.85	24.7
Regal	13.70	16.90	23.4
Cineplex	29.86	33.98	13.8
Kinepolis	69.69	99.36	42.6
Cinema City	6.67	6.48	-2.8
Cineworld	2.16	2.82	30.9
Major Cineplex	17.20	21.60	25.6

Higher share prices were supported to varying degrees by increased profits. Please note that in the EBITDA calculation below for the Thai exhibitor, Major Cineplex, amortisation of film rights has not been added back.

EBITDA 2011-2012

	2011	2012	% ch.
Carmike	72.8	93.8	28.8
Cinemark	478.8	546.6	14.2
Regal	505.5	602.3	19.1
Cineplex	171.6	201.8	17.6
Kinepolis	69.8	70.9	1.6
Cinema City	50.1	60.2	20.1
Cineworld	64.6	68.4	5.9
Major Cineplex	1749.4	1808.1	3.4

Comparing changes in the valuations of these companies from last year to this, a marked contrast emerges between exhibitors based in North America and those active in international markets in Europe and Asia. Namely while the EBITDA multiples on which North American circuits trade have stayed much the same, the three European companies and Major have seen their valuations increase by an average of 20%.

EV/EBITDA

	12 July 2012	18 April 2013	% ch.
Carmike	6.8	7.0	2.8
Cinemark	8.0	8.2	2.5
Regal	7.7	7.5	-2.4
Cineplex	11.5	11.2	-2.8
Kinepolis	7.7	9.5	23.6
Cinema City	8.0	8.9	11.0
Cineworld	6.3	8.0	27.5
Major Cineplex	10.1	11.9	18.2

Arguably companies like Major Cineplex, Cinema City and, since its City Screen acquisition, Cineworld have more space to grow than Carmike or Regal, justifiying their higher valuations. Cinemark already enjoys a premium to its fellow US chains due to its still-expanding circuit in Latin America. And Kinepolis has significant real estate holdings to justify its higher earnings multiple.

But would we be investors at these prices? They are higher than a year ago. Like pretty well everything else in the investment universe, exhibition stocks are getting more expensive in relation to the value (in the shape of earnings) they offer.

This is showing up in conventional stock market ratings as well as the EV/EBITDA valuations favoured in the exhibition industry. P/E ratios of 17 or 18 for what are essentially low growth businesses in mature markets are unaccustomedly high in a historical context.

Two figures in the table below warrant further explanation. Carmike's very low P/E ratio is due to a big write-back of deferred taxes; Regal's high yield to a special dividend paid in

P/E Ratios and Yields

	P/E	Yield %
Carmike	2.7	~
Cinemark	19.6	2.9
Regal	18.2	10.9
Cineplex	17.2	3.9
Kinepolis	16.6	2.4
Cinema City	13.5	~
Cineworld	14.8	4.2
Major Cineplex	23.7	3.6

On a positive view, exhibition stocks can be argued to promise a more-or-less inflation-adjusted yield into the future. If in more normal interest rate conditions, valuations would look excessive, thanks to financial repression that is also something that could be said of virtually every security available today.