

KEYWORDS: Investment Strategies

95/03-Catch a Ride

Who says investing isn't fun? With this company you get both a great stock and a reason to try out Raptor.

By Peter Lynch

It's worth reminding ourselves from time to time that gyrations in a stock price may tell us absolutely nothing about the prospects of the company involved. A good example of this is Cedar Fair, L.P., a company that owns three amusement parks within driving distance of 65 million potential investors: Cedar Point, in Sandusky, Ohio, on the shores of Lake Erie; Valleyfair, on the outskirts of Minneapolis; and Dorney Park & Wildwater Kingdom, near Allentown, Pennsylvania.

Cedar Point dates back to 1870, and seven U.S. presidents have visited there, but its biggest claim to fame is that Knute Rockne invented the forward pass on the premises. It's listed on the National Register of Historic Places, and it has one of the oldest working wooden roller coasters in the world. So this is a company with a lot of experience. It also belongs right at the top of Lynch's hit parade of companies that are easy to follow.

You don't need a Ph.D. and a microscope to figure this story out, and there aren't 14 different divisions going off in 14 different directions. The whole operation hinges on the three parks and how many customers they manage to attract in the four months a year during which they're open. That's the key ingredient in successful investing: finding companies you can keep track of so you've got a point of reference other than the stock price.

Cedar Fair tells you everything you need to know in the annual report, plus the very important third-quarter report sent to shareholders in November, after the summer season has ended. The most recent third-quarter mailing was a humdinger. It reported record crowds at the three parks in 1994, up 9 percent from 1993. (Disney and other park operators suffered a decline in attendance last year.) Revenues were up, earnings were up, and spending per visitor was up. The balance sheet was strong, and the company announced a record \$24 million in capital improvements for 1995.

The good news is out, and for a few months the parks will be closed and the roller coasters turned off, so nothing is going to happen to affect the company's prospects for a prosperous 1995 and beyond. Yet the stock will continue to have its ups and downs, and investors who realize there's no reason for the downs can take advantage and buy more shares.

Since Cedar Fair went public in 1987, there have been at least four chances. The first occurred six months after the stock began trading at \$10 a share. The market hit Black Monday, and a \$10 share became a \$6 share overnight. The company was paying a \$1.05 annual cash distribution at the time, so the \$6 buyers were getting an astounding 18 percent yield on their investment. You had to ask yourself: Is anything wrong with Cedar Fair that this stock should be this cheap?

The short answer was no, because the parks were already closed for the winter. The big fear at the time was that the U.S. would fall into a deep recession that would doom corporate America. So you then had to ask yourself: How does Cedar Fair do during a recession? The answer is quite reassuring. For the past 20 years, revenues have increased without a single lapse, during good times and bad. That's because, again, 65 million people live less than a tankful of gas from a Cedar Fair park: 22 million within reach of Cedar Point, 8 million within reach of Valleyfair, and 35 million within reach of Dorney. When money is tight, they can take a Cedar Fair vacation and spend far less than they would if they had to fly the family to Disney World. Disney is vulnerable to recessions because so many potential customers have to travel long distances to get there.

You got a second chance to buy Cedar Fair in the fall of 1990, when the U.S. military was preparing for the Gulf War. Thirteen dollars a share became \$10.40 a share. Once again, it was off-season at the parks, so nothing had gone wrong at the company to justify this drop. You had to ask yourself: Was Saddam Hussein planning to launch a Scud missile attack on Cedar Point?

The third chance came in 1992, after Cedar Fair bought Dorney Park. Everything about this deal looked favorable, but several months after it was done, the stock price still hadn't budged. It was stuck in the \$20 range, giving you plenty of time to study the situation and realize that Dorney was a great acquisition that more than doubled Cedar Fair's customer base.

It's not like Cedar Fair had brought home a wind farm or a biotech lab or something else it didn't understand. Amusement parks it knows how to run. The 20 top people in management have been with the company an average of 20 years apiece. They can take over a park that's down at the heels, renovate, spiff things up, advertise, and cut the overhead by folding the management into the Cedar Fair management. They buy the same trash cans, ticket booths, and roller coasters for all their properties, so they save money by getting a bulk rate.

This brings us to chance four, because while the company is posting record results, with earnings, revenues, and cash distributions on a continuous rise, the stock has fallen a long way from its high of \$36.60 in 1993. It hit a recent low of \$26.75 in the fourth quarter of 1994, and as of this writing, it's selling for less than \$29, giving it a very stingy price-to-earnings ratio of 10.

Again, the parks are closed, and again you have to ask yourself: What's the Street worried about this time? My guess is that there is concern about Cedar Fair losing its status as a master limited partnership. An MLP has a big tax advantage over a normal corporation. It makes quarterly cash distributions, similar to a dividend, but it doesn't pay taxes on them. Master limited partnership status makes Cedar Fair's earnings 25 to 30 percent higher than they would be otherwise.

About 90 MLPs trade on the stock exchanges, and roughly a third including Cedar Fair are scheduled to lose their status in 1998. There's a small chance, however, that some or all of these will be grandfathered and allowed to keep their tax advantage. Legislation to that effect has been introduced in the House. If Cedar Fair is not granted grandfather status, it will become a regular corporation and will be taxed accordingly.

But when you consider that the average stock on the S&P; 500 has a p/e ratio of 15, Cedar Fair is already selling at a 30 percent discount to the market. Looking at it this way, the stock has already suffered from the drop in earnings that won't occur until 1998, and maybe not even then. It's as if investors have decided that 1998 has already happened, ignoring the fact that Cedar Fair has three years of tax breaks ahead of it. Meanwhile, the cash distribution gets bigger every year. In 1995, the expected payout is \$2.40 to \$2.45 a share, a yield of more than 8 percent on the current stock price.

Cedar Fair has several advantages that go beyond being an MLP and are again apparent to anybody who reads the reports. The three parks attracted 5.9 million visitors in 1994, so they haven't begun to saturate the market of 65 million people. Cedar Point is famous for its macho roller coasters, but it's been adding kinder, gentler rides for aging baby boomers and their young children.

Moreover, competitors won't come in to knock them off. You don't see entrepreneurs lining up to build \$500 million amusement parks in cold climates. Cedar Point can make a living by staying open four months a year, but that's because the infrastructure is already there. Anybody who starts from scratch will go someplace warm, where tickets can be sold year-round. Not one new park has been constructed in the Midwest in more than 20 years.

Finally, the company can grow its earnings by adding new rides. That's been Cedar Fair's strategy all along. Cedar Point is already in the Guinness Book of Records for most roller coasters (11) in one location, and its Magnum XL-200 was voted Best Ride on Earth by readers of Inside Track magazine, whoever they are. But management isn't resting on these laurels. Last year, Cedar Point unveiled Raptor, the world's highest, steepest, and fastest inverted roller coaster. It flips upside down six times per trip. This year, the park is doubling the size of Soak City, a cluster of water rides.

Cedar Point now has enough flumes, roller coasters, and other amusements that a day in the park isn't enough time to take the mall in. This creates overnight traffic for the hotel, where an extra 200 rooms are being added to the existing 300. Whatever works at Cedar Point is repeated at the other locations. There's a Snake River Falls at Dorney, where it's called White Water Landing, and a Berenstain Bear Country at all three parks.

If Dorney has its expected growth spurt, it will boost Cedar Fair's earnings for the next five to ten years. At that point, Cedar Fair can acquire a fourth park and maintain the growth rate that way. And there's always the chance that somebody bigger will come along and buy out the entire operation. Disney might be a likely candidate, or PepsiCo, the parent company of TacoBell, Pizza Hut, and Kentucky Fried Chicken. Think of all the Pepsis, pizzas, tacos, and chicken wings Pepsi could sell if it had its own amusement parks. It could install a Pepsi coaster fizz flume.

In sum, Cedar Fair has everything you'd hope to find in a long-term investment: a solid franchise in a growing business that lacks competitors and that every person over the age of six can understand. I've owned shares since 1987, and bought more late last year.

Over the past decade, 40 million people have visited a Cedar Fair park, seen the crowds, and watched the new rides going up. How many of these 40 million went home, though, and bought shares in the Uruguay Fund, or the Bangladesh Fund, or the Emerging Markets Infrastructure Opportunity Fund, or the High-Yield Inverse Floater Government Guaranteed Bond Fund, or a biotech stock they knew

nothing about, ignoring a great company with a proven record that pays an annual cash distribution of 8 percent plus and has a story that's easy to follow?

Here's a lesson from Lynch 101 that I never turn down a chance to repeat: No investor can expect to be an expert in hundreds of stocks, but it's possible to become an expert in four or five that are easy to follow and monitor their progress and buy more shares when the opportunity arises. Cedar Fair is a prime candidate.

The best part about being a Cedar Fair shareholder is doing the on-site research. In 1991, my wife, Carolyn, and our oldest daughter, Mary, thoroughly investigated the flume rides at Valleyfair. In 1992, all five of us tested the roller coasters at Cedar Point. In 1993, Carolyn and our middle daughter, Annie, did a complete examination at Dorney. The company's stock symbol isn't FUN for no reason.

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