



Cineplex Stock: The Top Recovery Pick to Buy Today?

Description

Cineplex ([TSX:CGX](#)) has been one of the most popular Canadian stocks over the last year. Unfortunately for the company, though, it's because the stock price is so cheap. The company has been one of the hardest-hit businesses of the pandemic, but it could be beginning to look like the top recovery stock to buy now.

Across the country, vaccination rates have continued to rise, making Canada one of the world leaders when it comes to inoculating its citizens. That's allowed us to open our economy back up without major surges in case counts and, more important, hospitalizations.

This recovery of the economy has been ongoing for more than a year now. However, ever since vaccination rates have been rising, the uncertainty and potential for future lockdowns have been reduced significantly. So with restrictions continuing to be lifted, now could be the perfect time to buy some of these recovery stocks like Cineplex.

How many of Cineplex's theatres are operating at full capacity?

As restrictions continue to be lifted and most provinces are trending in the right direction, Cineplex finally looks like it has the potential to make a meaningful recovery. At the moment, the company can operate at full capacity in Ontario, Quebec, and Manitoba. Therefore, 90 of its 160 theatres or more than 55% of its locations are currently allowed to operate at full capacity.

Furthermore, many of the provinces that don't have full capacity haven't changed their guidance in months. This suggests that Cineplex stock could continue to see more restrictions dropped and capacity come available.

Plus, it isn't just its theatre business that has the potential to recover either. There is a tonne of pent-up demand from consumers to go to entertainment venues like Playdium or The Rec Room, creating an excellent opportunity for Cineplex.

Is Cineplex the top recovery stock to buy now?

Looking at Cineplex's financials over the last year and a half, things haven't been pretty. For the most part, each quarter has seen revenues that are down by over 85% from where they were before the pandemic and major [market pullback](#) that ensued. And while its most recent quarter did see a meaningful jump in revenue, it was still nowhere near where it was pre-pandemic.

The company is clearly trending in the right direction, though. And with the stock trading at only about 40% of what it was before the pandemic, there is no doubt it offers the potential for a significant recovery to long-term investors with the patience to wait.

At the time of the pandemic, Cineplex stock was in the process of being acquired and had an [enterprise value](#) (EV) of roughly \$4.1 billion. At the same time, the company was doing approximately \$1.7 billion a year in sales, implying an EV/sales ratio of 2.4 times.

And while we can't gauge its forward potential based on past sales during the pandemic, we can look forward to estimates of what Cineplex is expected to do over the next 12 months as it recovers.

At the moment, analysts are expecting that Cineplex stock will do just south of \$1.5 billion in sales during 2022. So with the company trading at an EV of \$2.8 billion today, it has a forward EV/sales ratio of just 1.9 times. This shows the stock has the potential to rally for two reasons. First, if sales estimates continue to rise and the ratio stays the same, naturally, its market cap and share price will also increase.

However, I would also expect that its value would eventually move closer to the 2.4 times sales that it was worth before the pandemic. It's understandably discounted right now, as there is still significant risk with Cineplex stock. As that risk erodes, though, that ratio will eventually move back toward its pre-pandemic level. And at 2.4 times its current 2022 revenue estimates, Cineplex would have an EV of roughly \$3.5 billion, which would imply a share price of \$25.70 today.

So if you're looking to buy a top recovery stock and considering an investment in Cineplex, now looks like an opportune time to take a position.

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Author

danieldacosta

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