Here's Why Cineplex Stock Should Be Worth at Least $20

Description

Ever since the pandemic hit, causing stocks to sell off and impacting businesses, there have been high-quality recovery stocks to buy. And one of the most popular companies, given just how cheap its stock trades, is **Cineplex** (TSX:CGX), the Canadian movie theatre and entertainment venue operator.

Cineplex's business largely requires the ability to host tonnes of guests in an indoor environment, whether that be movie theatres or entertainment venues. So, it's understandable why the business has struggled for so long through the pandemic.

It's also clear that the stock now has a tonne of recovery potential ahead of it, as restrictions continue to be eased and we put the pandemic behind us.

In fact, just this week, Cineplex announced that all of its theatres and entertainment venues are operating at full capacity now — the first time since the pandemic began 25 months ago. That announcement, unsurprisingly, gave Cineplex stock a lift.

However, it still trades unbelievably cheaply, and it's still well off its 52-week high. So, if you're wondering whether Cineplex stock is worth an investment today, here are all the risks you have to consider and why I believe it's worth closer to $20 a share.

What are the risks facing Cineplex stock?

As with any other recovery stock that has been significantly impacted by the pandemic, the biggest risk Cineplex stock faces is a resurgence of the pandemic. However, at this point, not only does that continue to be less likely, but even with a potential resurgence, we're almost certainly not going back to full shutdowns.

So, while the risks that the pandemic could impact Cineplex again are not that severe, it's still something you'll certainly want to keep an eye on.

Furthermore, as with any other company in this environment, it will be crucial to watch how inflation is impacting its costs, how much that may impact margins, and how well Cineplex can pass that on to the consumer.

How much is Cineplex worth?

In the five years leading up to the pandemic, Cineplex stock had an average forward enterprise value (EV) to EBITDA ratio of 11.2 times. But even if you take what it was trading at before the pandemic hit and apply it to today's price, it's clear that there is a tonne of upside potential in the stock.

At the end of 2019 and the start of 2020, just prior to the pandemic, Cineplex stock was trading at a forward EV-to-EBITDA ratio of roughly 9.5 times compared to roughly 8.1 times today.

If Cineplex stock were to trade at a forward EV-to-EBITDA ratio of 9.5 times today, its EV would be worth roughly $3.1 billion. That would give the stock a market cap of more than $1.3 billion, resulting in a stock price of approximately $21.50.

Now, obviously, with the risks that persist due to the pandemic, the stock should trade with a slight discount from its pre-pandemic value. However, the fact that it's trading well below $20 today suggests there is a tonne of upside in the stock price.

Furthermore, Cineplex's recovery has been impressive to this point, and if the company can continue to execute well, it could even beat those expectations of EBITDA for the year, which would result in a significant rally for the stock.

Therefore, if you've been watching Cineplex over the last few years, waiting to buy the recovery stock, now may be the perfect time to commit to a long-term position.

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2025/08/22
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