Cineplex Stock: A Top Canadian Stock Pick for the 2nd Half of 2022?

Description

Cineplex (TSX:CGX) stock has been ravaged by the pandemic. Just as COVID woes fade for the summer season, it appears many are concerned about a potential recession on the horizon and its impact on discretionary spending. Further, inflation has been a nasty beast that's weighed on our wallets.

Still, Cineplex has stayed resilient through the perfect storm. After losing more than 80% of its value from peak levels, the stock seems like it's flying in no man's land. However, for contrarians looking for a bargain, it's hard to top the value proposition offered by shares of CGX at these levels.

Whenever the absolute worst is expected, it doesn't take that much to move a stock higher. With a mere 0.8 times sales multiple and an intriguing Cinepass monthly subscription service that could take a bit of volatility out of the firm's cash flow stream, I'd argue that Cineplex is playing a terrible hand to the best of its ability.

Cineplex has what it takes to power higher in a recession

Now, Cineplex probably won't recover overnight as we inch closer to a potential recession. That said, Cineplex seems like it has a pathway towards a recovery. The summertime movie slate looks incredibly strong, with *Top Gun: Maverick*, *Lightyear,* and *Jurassic World: Dominion*. With *Thor: Love and Thunder* and *Nope* up ahead, it seems as though Cineplex has a chance to pole-vault over expectations for its coming quarters.

Indeed, discretionary goods are out of fashion when times get tough. But Cineplex is an experience, one that's still in high demand after 2020 era lockdowns. Arguably, Cinepass is an excellent value proposition for consumers looking for the most utility for every buck spent. At $9.99 per month, a monthly movie ticket and savings at concession are more than worth the price of admission.

Second-half catalysts could power Cineplex stock

It’s a great way to get butts back in seats. And with a robust lineup of films in the second half (think *Avatar*), 2022 could shape up to be a big recovery year for the Canadian movie theatre giant.

Attendance has steadily crept higher in recent quarters — a trend that could continue moving forward, even if corporate earnings slow and consumer balance sheets become more stressed. I believe Canada is a more resilient economy than the U.S., given the recent oil price strength. With that in mind, I prefer Canadian cinema plays over the U.S. ones.

At less than seven times forward EBITDA, Cineplex stock is the cheapest it’s been since the depths of 2020. As COVID continues to fade into the background, and consumers go out to see a movie again, thanks partly to sticky subscriptions like Cinepass, I’d argue the risk/reward scenario is tilted in favour of long-term thinkers.

The bottom line for Foolish investors

Don’t expect Cineplex to make all-time highs anytime soon. However, given the strong movie lineup, the success and recession-resilient of the Cinepass subscription service, and pent-up demand, I’d argue there’s never been a better time to back the recovering movie theatre chain.

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Date
2025/07/21

Date Created
2022/06/20
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