Cineplex Stock: Do its Recent Earnings Make it 1 of the Best Stocks to Buy?

Description

Ever since the pandemic hit and caused an unprecedented economic situation, **Cineplex** (TSX:CGX) stock has been one of the top companies that investors have watched. Before the pandemic, it traded for more than $30 a share, so the fact that it's still trading around $12 today shows it's still cheap and could be one of the best stocks to buy.

Unlike **Air Canada**, another massively impacted business by the pandemic, it faces far fewer headwinds, which should help to speed up its recovery. However, even with the majority of pandemic restrictions behind us, Cineplex is still working to grow its sales back to pre-pandemic levels.

So, let's look at how the stock performed in the second quarter of this year and whether the beaten-down media company is one of the best stocks to buy in today's highly opportune environment.

Cineplex reported impressive second-quarter earnings

Most investors will look at how Cineplex performed with respect to its sales and earnings to decide if it's one of the best stocks to buy now. And while those numbers are certainly crucial to consider, diving deeper into the numbers can help us to evaluate how the company is performing.

There are a lot of factors that Cineplex can control to help improve its recovery. The one thing that's out of its hands, though, is how quickly the film industry is recovering and how popular the movies are that it's currently showing.

Therefore, while the stock managed to generate $350 million in sales for the quarter and roughly $78 million in earnings before interest, taxes, depreciation and amortization (EBITDA), both of which slightly beat consensus, in my view, what's even more impressive is the company's growth in revenue per patron.

Cineplex stock reported an average box office per patron (BPP) in the quarter of $12.29, which was up 13% year over year and was the highest it's ever been in the second quarter. This shows that Cineplex continues to maximize the revenue it's generating even if the recovery in attendance takes longer than expected. For the quarter, attendance was just 72% of 2019.

Plus, in addition to the increase in BPP, the company also reported a significant increase in concession per patron (CPP). For the quarter, CPP was $8.84, which was also up 13% year over year and was the highest it's ever been in any quarter.

These impressive results show that Cineplex is executing well and is doing what it can to speed up the recovery by improving the customer experience and generating more sales per guest.

But even with these strong earnings, is Cineplex stock cheap enough to be considered one of the best stocks to buy in this environment?

Is Cineplex one of the best stocks to buy now?

At roughly $12 a share, Cineplex stock is certainly far cheaper than it was prior to the pandemic. However, looking only at its share price doesn't necessarily show its true value.

In the shorter term, Cineplex's potential will rely on how quickly it can recover and how high the market chooses to value it.

And since we know it's already recovering well with its slight beat of consensus in the second quarter, understanding the stock's valuation is crucial to figure out whether it's one of the best stocks to buy now or if you should consider other opportunities.

Currently, Cineplex stock trades at a forward enterprise value (EV) to EBITDA ratio of 7.3 times. In general, that's on the low end, but keep in mind the stock still has some risk. Therefore, to get a true idea of Cineplex's value, we'll have to look at that valuation compared to historical standards.

Prior to the pandemic, from 2015 to the start of 2020, Cineplex had an average EV-to-EBITDA ratio of 11.2 times, with roughly 7.5 times being the bottom. In addition, since the stock began to recover from the pandemic consistently roughly a year ago, the lowest its EV-to-EBITDA ratio has been is just 6.1 times.

Therefore, with Cineplex stock trading at the low end of its historical averages, the stock has little downside risk. So, if it can continue to execute well, there's no question that it can quickly become one of the best stocks to buy.

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