Why Cineplex (TSX:CGX) Has Plunged 25% in 2022

Description

Cineplex (TSX:CGX) is the largest cinema operator in Canada. It boasts a monopoly in an industry that has been severely challenged in recent years, especially during the COVID-19 pandemic. Today, I want to discuss what has caused its stock to run into turbulence in the year-to-date period. Let's jump in.

What is behind this stock's struggles in 2022?

Shares of Cineplex have plunged nearly 11% month over month as of close on August 19. The stock is now down 25% in the year-to-date period.

Its long-term shareholders are undoubtedly accustomed to volatility over the last several years. The COVID-19 pandemic presented an existential threat to the movie theatre business. Cineplex was forced to cease its operations for the bulk of 2020 and a good chunk of 2021. Fortunately, an aggressive vaccine push led to a broader reopening from provincial governments, and the company was able to return to normal operations by the spring of this year. That included the removal of the mask mandates in Ontario.

The pandemic may be behind Cineplex, but it is still facing daunting hurdles. Home entertainment alternatives already presented a threat to the future of the movie theatre. Streaming options have now expanded far beyond **Netflix**. However, this expansion in choice could also lead to apathy among consumers. We have already seen Netflix subscriber numbers stagnate in its recent earnings releases.

This could offer a ray of hope for the future of the cinema. The company and its peers will need to rely on good content and an experience that can entice customers out of their homes.

Should investors be encouraged by Cineplex's recent earnings?

Cineplex released its second-quarter (Q2) fiscal 2022 results on August 11. The company delivered the strongest quarter of the young decade. That said, it still missed analyst expectations. This sparked a selloff that has worsened into the second half of August.

Total revenues soared 438% year over year to $349 million. Meanwhile, theatre attendance rose to 11.1 million customers compared to a paltry 1.1 million in the second quarter of fiscal 2021. Cineplex and its peers have been bolstered by a strong slate of movie releases. This has included strong box office performances like *Top Gun: Maverick*, *Doctor Strange in the Multiverse of Madness*, and *Jurassic World Dominion* in this most recent quarter.

The company continued to squeeze more value out of its attendees. Box office revenues per patron increased 12% year over year to $12.29. Meanwhile, concession revenues per patron also jumped 12% to $8.84.

Better yet, Cineplex delivered adjusted EBITDA of $35.8 million in Q2 2022 — up from an adjusted EBITDA loss of $53.2 million in the previous year. EBITDA stands for earnings before interest, taxes, depreciation, and amortization. Adjusted EBITDA rose to $114 million in the first six months of 2022.

Cineplex: Should you buy on the dip?

This stock is trading in solid value territory relative to its industry peers. Relative Strength Index (RSI) is a technical indicator that measures a given security's price momentum. Cineplex last had an RSI of 31, which puts this stock just outside of technically oversold territory.

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