5 Things to Know About Cineplex Stock

Description

Ever since the pandemic began at the start of 2020, **Cineplex** (TSX:CGX) stock has been one of the most intriguing investments on the **TSX**.

The stock has remained well below its pre-pandemic high for over two years now. But before you decide whether the stock's worth an investment today, here are five key facts to know about Cineplex stock.

Cineplex stock is the largest theatre company in Canada

One of the reasons why Cineplex could be such a compelling long-term investment is that it's by far the largest movie theatre company in Canada, with over 1,600 screens in 159 theatres across the country. At the end of 2019, the stock had an estimated 75% of Canadian market share.

Back in 2003, Cineplex owned just 29% of the market share. Today, the movie chain is in a dominant position. Unquestionably, management has executed well over the years to get it here.

For sure, Cineplex has massive market share and is a well-known brand across Canada as the go-to movie theatre chain, but that's not all it does.

Theatres aren't Cineplex's only business

In addition to more than 150 movie theatre locations across the country, Cineplex stock has a media division, and an amusement and leisure segment.

The media division consists of advertising projected on its screens before movies. In addition, the entertainment company operates a digital place-based media business. It places the digital ads you'll see when waiting in line at the bank, ordering food from a quick-service restaurant, or walking through malls.

In 2019, Cineplex's media division accounted for $196 million in revenue, or just shy of 12% of its consolidated revenue.

The amusement and leisure division includes entertainment venues such as The Rec Room and Playdium. Cineplex started building and opening several new locations before the pandemic in an effort to diversify away from the theatre business.

However, unfortunately for Cineplex stock, these indoor venues rely on high foot traffic. So, they were equally impacted by the pandemic. Nevertheless, they continue to offer good growth potential for the stock down the road.

In 2019, before the pandemic, the amusement and leisure division posted revenue of $257 million, accounting for 15% of its consolidated revenue.

It has the largest entertainment loyalty program in Canada

One of the top reasons Cineplex is an excellent long-term investment is its dominant position in the theatre industry. However, it's also a partner in the largest entertainment loyalty program in Canada, Scene+, jointly owned with **Empire** and **Scotiabank**.

This loyalty program offers members perks and discounts with Cineplex's businesses. The partnership provides users with many more choices in categories such as travel, shopping, banking, and restaurants.

Loyalty programs are extremely valuable, particularly in this day and age where data is so valuable. So with over 10 million members, Cineplex's massive loyalty program gives it a tonne of opportunity for growth over the coming years.

Movie theatres have historically been resilient through recessions

Cineplex stock has been cheap throughout the pandemic. But the stock has hardly budged even as its business recovers this year.

This shouldn't be too surprising, given that it still faces uncertainty about how its recovery will go. Furthermore, movies is a consumer discretionary business. So as inflation increases and a potential recession looms on the horizon, investors are naturally worried about how it could be impacted.

However, in North America, box office revenue actually grew through both the dot-com bubble and Great Recession of 2008.

Cineplex is undervalued today

Cineplex's business is rapidly recovering and expected to grow its earnings before interest, taxes, depreciation, and amortization (EBITDA) by over 380% year over year in 2022. EBITDA is a measure of overall financial performance. Thus, CGX stock is considerably undervalued today.

The stock currently has a forward enterprise value (EV)-to-EBITDA ratio of just 6.4 times. This is near the low of where Cineplex traded this year. And it is well below where it was trading before the pandemic at 9.4 times its forward EBITDA.

Analysts also believe that Cineplex stock is undervalued, with an average target price of $15.46, a more than 70% premium to where it trades today.

Therefore, if you're looking for ultra-cheap stocks to buy in this environment, Cineplex is one you'll certainly want to add to your watchlist.

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