Why Cineplex Stock Still Offers Handsome Growth Prospects

Description

Like broader markets, **Cineplex** (TSX:CGX) stock has trended lower for the most part of 2022. However, last week brought in a glimpse of hope for Cineplex's recovery, which remarkably cheered investors. CGX stock has soared 20% since last month but has lost 20% year to date. Notably, the recent gain is just the beginning. The stock still has a significant upside in store.

Is Cineplex stock a good buy?

After years of cash burn and shareholder wealth erosion, things finally have started to fall in place for Cineplex. Importantly, CGX investors are betting on two key drivers for its recovery. The first and foremost is its financial recovery after the pandemic, and the other one is the settlement amount it is about to receive from now-bankrupt **Cineworld**.

Notably, Cineplex showcased a stunning performance for the quarter that ended on September 30, 2022. It reported revenues of $340 million for the quarter, an increase of 36% year over year.

The theatre chain giant also turned profitable during the quarter, reporting $31 million in net income. In the same period last year, the company reported a net loss of $33.5 million. Decent profitability ahead of the holiday season is certainly a positive sign for Cineplex and its investors. The company also saw its third-quarter (Q3) revenues reaching 70% of Q3 2019 levels, marking a gradual but firm return to normalcy.

Moreover, Cineplex will likely continue to see strong financial growth in the next few quarters as well. With big movie releases coming and the holiday season, it might see improved profitability.

Another key factor that will decide Cineplex's fate is its settlement with Cineworld. If everything goes well, Cineplex will receive $1.24 billion from Cineworld, which is two-thirds of the prior's net debt. However, things will not be this easy, considering Cineworld's bankruptcy and associated delays.

Risks

Cineplex is exposed to some serious risks. Investors are betting on higher foot traffic at movie screens and improved financial growth for Q4 2022 and 2023. However, rising interest rates and adamant inflation are creating visible risks of a recession. Consumer spending will likely trend lower in case of a severe, longer recession, which will likely be a big glitch in Cineplex's recovery.

Moreover, a delayed settlement with Cineworld could also be a notable setback. Cineplex still has a large debt pile. So, a convergence of a recession and a delayed settlement could be disastrous.

Valuation

CGX stock is currently trading 0.4 times its sales, which looks attractive from a valuation standpoint. Also, if we assume that it receives the Cineworld payment in full, the stock is trading at a price-to-book value ratio of 0.6. That's even more attractive. However, considering the uncertainties, these factors have not yet been factored into the stock.

The downside looks limited for CGX from its current levels, given the improved financial performance. Investors can expect CGX to touch $15 apiece if it continues a solid quarterly show and favourable developments toward a settlement.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vinitkularni20

Category

1. Investing

Date
2025/08/25
Date Created
2022/11/14
Author
vinitkularni20