3 Things to Know About Cineplex Stock in November 2022

Description

Cineplex (TSX:CGX) is a turnaround stock in progress. There's no way to sugar coat the high-risk stock, whose financial position has been severely damaged. It was hit hard during the COVID-19 pandemic. In 2020, it horrifically witnessed a 75% drop in revenue to $418.3 million and a similar decline rate in gross profits to $280.4 million. The operating loss was $308.8 million. Ultimately, its net loss in 2020 was $628.9 million. Even now, its operating results have not yet recovered.

Recent results

Its third quarter (Q3) (which includes the months of July, August, and September) box office figures were only 70% of the "normalized" levels in 2019. The October box office figures were only 62% of the levels in October 2019.

Surely, the different slates of movies are an obvious factor in Cineplex's ability to attract moviegoers. The scarier thought is that some moviegoers might have changed their behaviour and have found other forms of entertainment, including watching movies on their cozy coach at home.

At least versus last year, Cineplex is clearly showing a turnaround. In the first nine months of the year, it saw revenues rising 157% to $918.4 million. Theatre attendance also climbed 193%. The net loss shrunk by over 95% to just over -$10 million. Cash provided by operating activities increased by 42% to $47.5 million. Box office revenues per patron rose 5.3% to $11.83. Concession revenues per patron climbed 3.1% to $8.65. Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), a cash proxy, rebounded to $177.5 million from $1.6 million year over year. It also swung back to positive adjusted free cash flow of under $1.7 million.

This is a start in improving its financial position.

Financial position

Cineplex eliminated its dividend in 2020, but it wasn't enough to prevent its stockholders' equity turning negative in the following year due to deep losses. A negative stockholders' equity is a red flag for investors. It means the company's liabilities exceed its assets. So, if the company were to liquidate tomorrow, shareholders would get nothing.

To increase its stockholders' equity, the company just needs to make money. Since Q2, Cineplex has been steadily improving its stockholders' equity. If the trend continues, the company can slowly recover.

Given the poor state of the small-cap stock's financial position, it's understandable why Cineplex stock's short interest is relatively high with a meaningful chunk of investors being bearish on the stock.

The short interest in Cineplex stock

According to Yahoo Finance, Cineplex's recent short interest is 7.16%. A decrease in short interest would indicate investors have become more bullish on the stock. The number of short shares of 4.53 million is a marginal decline from last month's 4.55 million. So, there pretty much has been no change in investor sentiment on the stock.

The short interest is a good indicator for interested investors to keep an eye on. For example, if Cineplex stock started paying dividends again, many shorts will have to cover their positions to avoid paying the dividends.

The Foolish investor takeaway

Through the pandemic ordeal, Cineplex has become a leaner company in terms of reducing its operating expenses, which more than offset the increase in its interest expense. For example, its 2021 operating expense was 37% lower than it was in 2019, which helped it save $317 million, even after accounting for the higher interest expense.

The holiday season could attract more people to the movies and increase the demand for entertainment. However, Cineplex has a long road to recovery. Investors could be waiting a long time for meaningful upside, despite the consensus across six analysts indicates the stock is undervalued by almost 29% at $9.93 per share. For now, investors are better off seeking safer ideas.

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Date
2025/06/27
Date Created
2022/11/27
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