Cineplex Stock: A Top Contrarian Stock to Buy for 2023

Description

Investors could easily give up on stocks like **Cineplex** (TSX:CGX), which has continued to be weighed down by a wide range of macro and industry-specific headwinds. The movie theatre business was brought to its knees by the COVID-19 pandemic. Nearly three years later, the top cinema stocks haven't done much, even with restrictions lifted and masks taken off.

At $10 per share, Cineplex is still priced with much fear in mind. Talks of a recession aren't making matters any better for an entertainment company whose growth prospects beyond the box office have been put on hold. At writing, Cineplex is a far cry (around 82%) from its 2017 highs. Back then, Cineplex was a Canadian blue chip that offered the perfect mix of dividends and gains.

Cineplex has done a great job of getting bums back in seats over the summer. With *Avatar: Way of the Water* giving the company a nice year-end boost, the road ahead certainly seems a little bit brighter than the one recently travelled, even with a recession considered.

Indeed, a recession in Canada will hurt all of our wallets. Many of us will avoid spending money on nice-to-have things and experiences altogether. That said, a mild recession probably will not be comparable to pandemic-era lockdowns, when Cineplex saw sales crumble like a paper bag.

Cinepass: The perfect tool to fight back against the streamers?

With Cinepass, Cineplex is looking to give streaming platforms a good run for their money. Still, the box office is heavily reliant on blockbuster films. Fewer must-see films mean not only fewer bums in seats, but less cash spent at the concession. With a monthly subscription, Cineplex can offer consumers a good bang for their buck, with a free monthly ticket and discounts.

Though a recession may impact popcorn and drink sales (where Cineplex makes a big chunk of earnings), the company is smart to get moviegoers hooked on coming in regularly, even during periods when there are few, if any, hot new releases.

Cinepass may not be the answer to Cineplex's issues. However, I do think it could help smoothen quarters in a recession year. With a decent movie slate and more consumers feeling safer about going out, 2023 may be a year in which CGX stock can squeeze out a positive return.

CGX stock: What about valuation?

Cineplex stock is a tough beast to value. The $633 million company faces pressure in a year that could weigh heavily on demand for experiences. The stock trades at 0.5 times price-to-sales (P/S) and 3.8 times price-to-cash flow (P/CF). Undoubtedly, such low multiples suggest more pain ahead. However, I do think expectations are too low for a firm that's seen some impressive beats this year.

The latest quarter saw Q3 EPS come in at $0.43, much higher than the estimate calling for a $0.17 EPS loss. I think more beats could be on the horizon, as Cineplex looks to manage through another tough year.

Investor patience will be tested again. But those who seek solid risk/rewards, I think, should give the stock another year to prove its value.

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