Cineplex Stock Rose 10% in November: Is it a Buy Today?

Description

Some stocks are currently trading at their all-time highs, while few are still struggling way below their pre-pandemic levels. Canadian theatre chain company **Cineplex** (TSX:CGX) belongs to the latter category. The stock is trading 65% lower than its pre-pandemic highs.

Should you buy CGX stock?

While the stock seems depressed for the last few years, not everything is gloom and doom at Cineplex. Instead, after years of losses and massive cash burn for the last 10 straight quarters, CGX finally seems to be turning the corner. And that is why investors cheered, and CGX stock gained 10% in November. It still has a long way to go, but its recent quarterly performance indeed indicates growth in the making.

Cineplex witnessed a massive 350% top-line growth in the last 12 months, which is significantly higher than last year. While the bottom-line trend is still worrisome, it posted comfortable profits in the third quarter (Q3) of 2022.

For the quarter that ended on September 30, 2022, Cineplex reported a net income of $31 million. It reported a net loss of $33 million in the same quarter last year. On the margins front, Cineplex reported a net margin of 9%, the highest since Q1 2020. It could continue to see encouraging financial developments, at least for the next few quarters, amid the holiday season and upcoming blockbuster releases.

The box office revenues could continue to ramp up next year, putting it on reasonable ground for a consistent financial recovery.

Cineplex: Debt profile and balance sheet

Cineplex's debt ballooned during the pandemic, as operating cash flows dwindled. At the end of Q3 2022, it had a net debt of $1.9 billion, implying a leverage ratio of 7.5. That's still much higher from an investor's perspective. The management aims to reach leverage of around 2.5 to three times, as the business continues to ramp up.

Note that if Cineplex receives its pending settlement amount soon from **Cineworld**, its balance sheet will likely attain a much stronger financial shape. However, Cineworld has filed for Chapter 11 bankruptcy, leading to uncertainties. Cineplex is expected to receive $1.24 billion from Cineworld, as the latter walked away from its proposed takeover in April 2020.

Despite the recent rally, CGX stock has lost 25% of its market value so far this year. It is currently trading at 0.5 times sales, implying a discounted valuation. Plus, if we assume Cineplex receives the Cineworld settlement amount, it is currently trading at a price-to-book value ratio of 0.6, which, again, appears undervalued.

The Foolish takeaway

Even if CGX stock saw some recovery recently, it could continue to see momentum building in the next few quarters. The stock looks undervalued, considering the financial turnaround and a potential lawsuit settlement. Cineplex was one of the names that led to massive value erosion in the last few years. However, that could change in the next few years, and CGX could once again drive shareholder value.

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