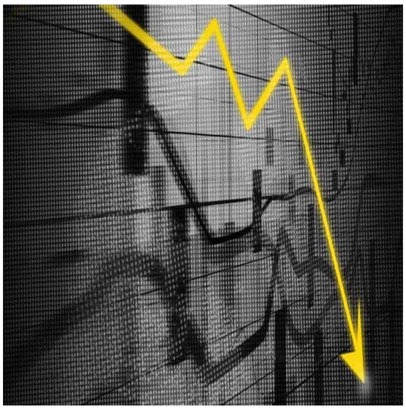

Why Cineplex Stock Fell 41% in 2022

Description

What happened?

Shares of **Cineplex** (TSX:CGX) tanked by 41% in 2022, underperforming the broader market by a large margin. The **TSX Composite Index** saw an 8.7% decline last year, as macroeconomic uncertainties continue to haunt investors. At the time of writing, CGX stock trades at $7.93 per share, down nearly 77% from its pre-pandemic year 2019's closing level of $33.85 per share. By comparison, the main Canadian market benchmark has gained 14% since then.

So what?

Like most cinema operators across the world, Cineplex has been financially struggling for the last couple of years. After the coronavirus-related shutdown and restrictions forced movie theatres to shut in 2020, the Canadian cinema operator and entertainment firm reported a big adjusted net loss of $9.93 per share for the year. In mid-2020, the British Cineworld Group, which earlier committed to acquire Cineplex, walked away from the deal. This development, along with the devastating impact of the pandemic on Cineplex's financials, were the key reasons CGX stock tanked by nearly 73% in 2020.

As pandemic-related restrictions started easing, and people started going back to movie theatres in 2021, the Canadian company's revenue improved and losses shrank, leading to a 47% recovery in CGX stock during the year.

The year 2022 began with new economic challenges, as high inflationary pressures drove labour costs higher, and rapidly rising interest rates fueled fears about an upcoming recession. These macroeconomic concerns triggered a massive broader market selloff, especially in growth stocks.

Although Cineplex has remained profitable in the last two reported quarters, investors fear a looming recession might delay its financial recovery further. In addition, its legal battle to seek damages from Cineworld for walking away from the acquisition deal faced multiple legal setbacks in 2022, adding pessimism. These negative factors were mainly responsible for driving Cineplex stock down by about

41% last year.

Now what?

Macroeconomic issues are still ongoing, and investors fear that more interest rate hikes in the near term could push the economy into a recession. Given these economic uncertainties, I wouldn't expect CGX stock to stage a sharp recovery in the short term, unless the broader market starts rallying for some reason.

Nonetheless, we shouldn't forget the fact that Cineplex is on the path to a healthy financial recovery. While it is yet to announce the full-year 2022 results, it reported $0.43 per share in adjusted earnings in the September quarter.

Bay Street analysts expect its financial recovery to continue as its 2023 earnings are estimated to be around $0.75 per share — stronger than its 2019 adjusted earnings level. Despite these positive expectations, its stock is still down by more than 75% from its 2019 closing. Given that, if you're looking for a seemingly undervalued stock to buy now and hold for the next five or 10 years, you can consider investing in CGX stock in 2023.

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