



Is Cineplex Stock Worth Buying in 2023?

Description

2022 was a dismal, [volatile](#) year for much of the market, including **Cineplex** ([TSX:CGX](#)). Over the course of the year, Canada's largest entertainment company shed 40% of its value, far surpassing the market. But now that 2023 is among us, and the closures of the pandemic a distant memory, it raises an important question: is Cineplex stock worth buying in 2023?

Let's try and answer that question.

Cineplex's business remains unchanged. But is that a good thing?

The bulk of Cineplex's revenue stems from a trusted business model. In short, Cineplex charges admission to patrons to watch a show. The company then sells concessions to those patrons.

The movie-and-popcorn business model has worked well for over a century, but it has two key weaknesses.

First, Cineplex's results are very much dependent on the quality of content churning out of Hollywood. This could be a good thing when blockbusters such as *Top Gun: Maverick* are released.

However, if there is a noticeable drop in quality, it can impact Cineplex's bottom line, and there's not much the company can do about it.

The other point to note is a problem that existed well before the pandemic. Streaming services have emerged as alternatives to the traditional movie-and-popcorn model. Monthly subscription models allow would-be patrons unlimited access to libraries of thousands of movies for less than the price of a single admission.

Adding to that is the increasing number of devices to stream that content, and the growing number of exclusive (in other words, not in theatre) content being released directly to streaming channels. In fact, in the time since the pandemic started, several studios have allocated billions in streaming-only content.

This dilutes the overall exclusivity of Cineplex's core business model.

What about results?

Fourth-quarter results are expected sometime next month. Until then, let's take a look at the most recent results from the third quarter, which was posted back in November.

In that quarter, Cineplex saw revenues come in at \$339.8 million, reflecting a solid 35.7% increase over the same quarter in fiscal 2021. In terms of earnings, Cineplex reported \$30.9 million for the quarter. This handily beat the \$33.6 million loss reported in the prior period.

Improvements in box office revenue were primarily attributed to that growth. That growth is expected to continue into the fourth quarter, which will include the impact of highly expected releases such as *Black Panther: Wakanda Forever* and *Avatar: The Way of Water*.

While the theatre segment comprises the bulk of Cineplex's revenue, it isn't the only segment. The company also operates a digital media segment business as well as its amusement and leisure segment.

The former is responsible for placing digital menu boards in fast-food establishments. The latter includes both amusement and gaming equipment services (Player One Amusement Group) as well as location-based entertainment venues (such as Cineplex's Rec Room locations).

In the most recent quarter, Digital media revenue surged 36.5% to \$2.7 million. Both Player One and Location-based segments saw record revenue figures of \$45.5 million (an increase of 28.4%) and \$31 million (an increase of 42.5%), respectively.

That's impressive, but it hardly makes Cineplex stock worth buying. Or does it?

What does this mean for the future? Is Cineplex stock worth buying?

Despite finishing 2022 down a whopping 40%, there are some positives to note for long-term investors. The pandemic-era closures are finally behind us, meaning that theatre attendance numbers will continue to rise.

By extension, that also means that investors can expect to see some growth, albeit slow growth. And that's assuming that the entire market doesn't slip into a recession or prolonged [correction](#), as many expect it will in 2023.

The uncertainty around a potential recession could slow the progression of that recovery further, which doesn't bode well for investors with shorter timelines.

So then, is Cineplex stock worth buying in 2023? Unfortunately, the stock still carries a lot of risk — perhaps too much for most investors. Unless you are already invested in Cineplex and have a long timeline for that recovery, there are far better and less-risky investments to consider at the current juncture.

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Date

2025/06/28

Date Created

2023/01/09

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