Why Cineplex Stock Just Hit 52-Week Lows (Is it Time to Buy?)

Description

Cineplex (TSX:CGX) stock has been stuck in the gutter for several years now, thanks to what was the headwind hailstorm. From the rise of video-streaming platforms to the COVID-19 pandemic, Canada's top movie theatre chain has been under profound pressure. Going into 2023, things don't look much better, with a recession likely to deliver another blow to consumer spending. Indeed, high levels of inflation have hit consumer wallets for well over a year now.

Despite this, many consumers still have savings from the lockdown days. High interest rates on mortgages and consumer debt, and soaring prices at the grocery store have eaten into the financial cushion of many. Still, there are reasons to be optimistic about a long-time movie chain like Cineplex while even more shareholders begin to lose their patience.

Cineplex stock can't seem to catch a break as shares sink to new 52-week lows

Though Cineplex stock seems to be dead money, with a market cap that's shrunk to a mere $496 million and a non-existent price-to-earnings (P/E) multiple, I think there are reasons for longer-term, deep-value investors to give the battered play a second look.

Undoubtedly, Cineplex stock recently sunk to new 52-week lows of around $7 and change per share. Indeed, it'll be another tough year for shares of Cineplex, with the firm extending its credit facility by around a year.

Though a recession could be yet another punch to the chin of the cinema firm, I'd argue that there's a good chance that most of the negativity is already more than baked in. Undoubtedly, stock rallies and crashes tend to exaggerate, creating greater distance to a stock's intrinsic value the longer and more vicious a trend goes.

Looking beyond the pandemic and recession for a

transformation

Undeniably, the movie theatre business just isn't the same as it was a decade ago. Even if the pandemic and a looming recession end, there are still prominent sore spots for Cineplex. Undoubtedly, streaming has changed the industry for good. With that, fewer productions (especially smaller-budget comedies) will be headed to the silver screen.

Though Cineplex still has blockbusters to thank for putting bums in seats, it's clear that Cineplex needs to adapt if it's ever to regain the glory it once commanded. Fortunately, Cineplex has a plan, with an amusements business that could pick up traction again once the worst of headwinds subside.

For investors, a ton of patience is needed. Cineplex is not a name that will bear fruit overnight. As the worst headwinds subside, we'll gradually see the firm with enough financial flexibility to resume its efforts to diversify away from the box office.

Cineplex: A recession isn't game over

In the meantime, I don't think 2023 and the accompanying recession will be as horrid as recent action in the stock suggests. Why? Going to the movies isn't all too expensive. In an era where the price of everything has rocketed higher, Cineplex has actually evolved to become a pretty affordable night out.

Add the Scene+ program (a points-based loyalty program) and its affordable Cinepass monthly subscription (free movie ticket per month in addition to other discounts) into the equation and Cineplex offers a value proposition that's tough to match.

Sure, you can stream endless content at home. However, I think we've reached peak streaming. And with that could see a nice return to the movie theatres that a recession may not derail. I'm inclined to buy the stock here, given low expectations and all the dread baked in.

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