Is Cineplex Stock Finally Worth Buying in 2023?

Description

Cineplex (TSX:CGX) has suffered immensely since the onset of COVID-19. Even before the pandemic forced businesses to shutter down, especially those involving many people in close spaces, the movie theatre giant has been contending with video streaming platforms. Between these two factors and the current market volatility, it seems like Cineplex stock cannot catch a break.

As of this writing, the **S&P/TSX Composite Index** is down by 5.33% from the same point last year. While the Canadian benchmark index has been on an uptick in the last few weeks, several analysts anticipate a major recession this year due to tightening monetary policies.

A recession seems increasingly likely, with inflation still high and key interest rates rising. These factors can contribute to a major stock market correction, making it less likely for Cineplex stock to become an attractive investment.

Unable to catch a break

As of this writing, Cineplex stock trades for $8.06 per share. At current levels, it is much closer to its 52-week lows than its 52-week highs.

Down by 42.83% from its 52-week high, the $512.11 million market capitalization move theatre and family entertainment company seems like it is floating dead in the water right now. For Cineplex investors, 2023 does not appear to be a year of good news, with the company extending its credit facility by roughly a year.

A recession hitting the market can be another punch in the flurry of hits Cineplex has taken over the years. Debt was the biggest challenge for the company in recent years, and the pandemic erased its top line to balloon its debt to $6 billion in 2022. The company's estimated debt-servicing cost last year amounted to $120 million as the core business continued losing money.

A few optimistic developments

Despite all its troubles, not everything is doom and gloom with Cineplex stock. The company won a lawsuit against **Cineworld**, in which the latter was ordered by the court to pay out $1.2 billion to Cineplex for reneging on an acquisition deal in 2020. The settlement amount will help Cineplex cover a major chunk of its debt load.

To make matters better, *Avatar: The Way of Water* is a major blockbuster that is on track to become one of the highest-grossing movies of all time. Estimates indicate that it will generate roughly $3.5 billion by the end of its theatre run, potentially allowing cinemas to recover much of their pandemic-induced losses.

Cineplex also holds a good deal with Lionsgate studio, which makes it responsible for distributing 11 of the studio giant's upcoming releases, potentially creating more value for Cineplex investors this year. Mid-2022 also saw Cineplex report a quarterly net profit for the first time since the pandemic struck.

Foolish takeaway

Between the court settlement and improving business in recent weeks, Cineplex stock might see better days this year. However, a recession can undo every positive development, based on how badly it impacts business for the beleaguered theatre giant.

For conservative investors, it might be better to wait on the sidelines and watch how the situation develops. If you have a higher risk tolerance, it might be a good time to allocate some capital you would not mind losing in the stock.

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