



Could Cineplex Stock Be a Big Winner in 2023?

Description

As we saw in the months and years following the start of the pandemic, many stocks eventually recovered from their initial selloff. It wasn't until uncertainty picked up in 2022 that stocks started to sell off again. However, while most companies eventually recovered from the pandemic's effects, one company that's been struggling to recover completely is **Cineplex** ([TSX:CGX](#)) stock.

In 2019, the last full year leading up to the pandemic, Cineplex reported roughly \$1.67 billion in revenue. And while restrictions have finally been eased for Cineplex, and it's back on the right track, over the last four quarters, the company has managed to earn just \$1.2 billion, still down roughly 25% from its pre-pandemic levels.

One of the biggest factors that impact Cineplex's business is the slate of movies coming out of Hollywood, which were also significantly affected by the pandemic. But with many blockbuster films set to hit theatres in 2023, investors are wondering if Cineplex stock could be a big winner in 2023.

Before the pandemic hit, Cineplex stock traded at just under \$34 a share. Therefore, with the stock trading below \$8.50 as of Wednesday's close, Cineplex is still down a whopping 75% from its pre-pandemic price.

The company certainly has the potential to recover significantly and rally rapidly as a result. The question will be, can it do so in 2023, when the economy is expected to face major headwinds?

Is Cineplex stock set for a rebound this year?

As I mentioned above, one of the most significant factors impacting Cineplex's business (and one it has no control over) is the slate of movies it has to offer viewers. And in 2023, many major blockbusters are set to hit theatres, including *Barbie*, a new *Hunger Games* movie, *Indiana Jones*, and at least six major studio superhero movies.

This significant improvement in offerings should help Cineplex to see a major uptick in attendance. Although final numbers for 2022 aren't in yet, Cineplex is expected to report total attendance of less

than 40 million in 2022 — well off the more than 66 million patrons it saw in 2019.

Another positive is that in 2021, and so far through the first three quarters of 2022, Cineplex has been earning more cash per patron, both at the box office and at the concession stand. Therefore, when Cineplex eventually sees a significant rebound in attendance, it should be able to match its 2019 revenue and actually exceed those numbers.

Furthermore, Cineplex's other businesses, especially its recreation and amusement operations, have been performing exceptionally well over the last few quarters, helping Cineplex to grow its earnings before interest, taxes, depreciation, and amortization ([EBITDA](#)) significantly in 2022.

But while Cineplex does have a tonne of potential to continue its recovery, the stock will only be worth an investment if it offers value, especially with all the risk and uncertainty in markets this year.

How much value does Cineplex offer investors today?

Although we know that Cineplex is down roughly 75% from its pre-pandemic price, looking at the chart is just one factor and doesn't give us enough information to decide if the stock is [undervalued](#) today.

It's far more important to look at several valuation metrics for Cineplex to get a better idea of the value it offers investors.

Before the pandemic, Cineplex traded at a forward enterprise value (EV) to EBITDA ratio of roughly 9.5 times. Today, the stock trades at just 7.1 times its forward EBITDA, showing the stock offers value but isn't unbelievably cheap.

Keep in mind, though, that as Cineplex continues its recovery, those EBITDA numbers should continue to increase, leading to more upside potential for investors.

Furthermore, typically box office revenues remain flat or even grow through recessions. Therefore, while there is certainly risk in this economic environment, according to historical numbers, Cineplex could continue to perform well through 2023.

And although several analyst target prices have been lowered in recent weeks, as uncertainty grows in the stock market, five of six analysts still rate the stock a buy, and its average analyst target price of \$12.41 is almost 50% higher than where Cineplex stock trades today.

Therefore, there's no question Cineplex stock has the potential to be a big winner in 2023.

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