



## Cineplex Stock: How High Could it Go in 2023?

### Description

**Cineplex** ([TSX:CGX](#)) stock was one of the hardest hit in the last three years. But as the pandemic winds down, 2023 is brimming with hope for the stock. This is because Cineplex's business is, in many ways, stronger than it was before. It's also coming back with a vengeance.

### Cineplex's stock price has been beaten and tattered

Pandemic shutdowns threatened Cineplex's very survival. The company was hanging on by a thread, and Cineplex's stock price was decimated.

Today, as the country [puts the pandemic behind it](#), things are getting back to normal. Supply disruptions are being worked through, people are returning to in-person shopping, and travel is on the uptick. But this is not the normal of pre-pandemic days — it's a new normal.

For Cineplex, this may be a good thing. Hear me out, because I know that the consensus is different. So, before the pandemic, Cineplex stock was already feeling the pressures of the new kid in town — streaming. The belief was that Cineplex's movie exhibition business was a dying thing. Streaming, investors said, would replace "going to the movies."

To a certain extent, this was playing out. But Cineplex had already been planning for this disruption. This is why the company went on a quest to diversify its business. Recreation rooms were opened, the Cineplex store was created, and the media segment was born. Today, movie exhibition accounts for approximately 70% of Cineplex's total revenue — a far cry from where it started out, when it was almost exclusively reliant on the movie exhibition business.

### A new and improved, diversified business

Cineplex's efforts to make its movie exhibition business more profitable started well before the pandemic. Things like VIP cinemas, assigned seating, and other special features allowed Cineplex to charge a very nice premium to regular tickets. Today, premium ticket sales represent an increasing

portion of total ticket sales. Box office revenue is recovering, but once again, December's box office number was disappointing. It came in at \$48 million, 65% of box office revenues achieved in December 2019. Premium pricing has really helped soften the blow.

Also, Cineplex's amusement and recreation segment is picking up some of the slack. In fact, this segment reported an all-time record EBITDA (earnings before interest, taxes, depreciation, and amortization) in the third quarter. Total revenue for the segment was \$76.6 million, or 119% of 2019 levels. This trend has continued into December.

For an idea of how well Cineplex is recovering, let's look at its third-quarter results more closely. Revenue increased 36%, and adjusted EBITDA increased 90%, as Cineplex continued to add alternative film content, and its international offering to drive performance.

## 2023 looks bright

Macro concerns have been on full display in 2022. They highlight the dangers of soaring inflation, lower purchasing power, and a looming recession. This has wreaked havoc on the market and on most stocks. 2023 must be about finding those companies that can thrive, despite these pressures.

Cineplex stock has two major things going for it. The first is its [cheap valuation](#) — it trades at a mere 14.5 times 2023 estimated earnings and 8.5 times 2024 estimated earnings. The second is the fact that its business has proven to be surprisingly resilient to economic hardships. You see, Cineplex provides a form of entertainment — an “escape,” if you will — that's really crucial when hard times come our way. When compared to other forms of leisure activities, such as travel, it's way more affordable.

In closing, I would like to remind ourselves that back in 2017, Cineplex stock traded at highs of over \$50. This was definitely a different time. The company was known for its excellent cash flow generation and its dividend. Today, Cineplex is different. But it's surviving the threat of streaming, proving that the movie-going experience is still in demand. Also, it's reinventing itself as a diversified Canadian entertainment company. I would expect Cineplex stock to be much higher at the end of 2023 if its strategy continues to play out as intended.

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