Is Cineplex Stock Worth Buying in February 2023?

Description

Is Cineplex stock (TSX:CGX) worth buying in February 2023? That's the question on investors' minds, particularly as Canada's largest entertainment company posted its first post-pandemic profit this week.

Let's try to answer that question and see if Cineplex is finally moving out of pandemic-induced discount territory.

First, more on those results

Cineplex just announced results for the fourth fiscal earlier today. In that most recent quarter, the entertainment titan recorded a $10.2 million profit. This was a noted improvement over the $21.8 million loss reported in the same period last year.

On a per-share basis, Cineplex posted a $0.16 per diluted share profit for the quarter. A much-improved revenue number, which hit $350.1 million in the quarter, was the primary driver behind that bump. In the same period last year, revenue came in at $299.9 million.

Theatre attendance for the quarter was 9.2 million, which lagged the 10.2 million patrons in the prior year. Fortunately, revenue per patron and concession revenue per patron contributed to that jump with some record-breaking numbers.

Specifically, box office revenue per patron saw a $0.77 increase to 13.06, while box concession revenue saw a $1.44 per patron increase.

Unfortunately, the same long-term problems still plague Cineplex

The promising results may look as if Cineplex stock is worth buying, but there are other considerations to take into account.

Specifically, Cineplex is still plagued by the ongoing shift towards streaming services. Streamers can offer entire libraries of content that can be streamed to a growing number of devices from anywhere.

During the pandemic, the appeal of streaming services only increased. In fact, some streamers have dedicated billions towards producing original content for those services.

In terms of cost, monthly unlimited access to streaming libraries costs less than a single movie admission. By comparison, the cost of going to a movie and buying concessions is on the rise, like everything else.

The other issue that Cineplex is forced to deal with is the *quality* of content that comes out of Hollywood. It's no coincidence that Cineplex saw a bump in earnings when the highly anticipated *Top Gun: Maverick* hit theatres last year. The same could be said for *Avatar: The Way of Water*, which is still breaking box-office records around the world.

But what happens when that run of good, eagerly awaited films dries up? And will that impact make Cineplex stock worth buying?

That fear, along with the growing threat of streamers, is a big part of why Cineplex is diversifying itself. The company is looking to shift its over-reliance on the movie-and-popcorn business, which hasn't changed much in a century.

Some of those initiatives include in-theatre solutions to attract patrons with an enhanced experience. Other options include different revenue streams, such as the company's successful digital media business and the growing network of Rec Room entertainment sites.

Is Cineplex Stock worth buying right now?

No stock is without risk, and when it comes to Cineplex, the company is full of risk. The recently announced earnings report represents a welcome sign of recovery for the company, but it still has plenty of room to go.

If anything, diversifying away from the movie-and-popcorn business is where Cineplex needs to get to. Unfortunately, that's a long-term initiative and may be outside the timeframe of most investors.

As of the time of writing, Cineplex is still trading down over 30% in the trailing 12-month period.

And unlike the Cineplex of the pre-pandemic years, the company no longer offers a dividend to keep investors invested in seeing that change through.

In my opinion, there are still far better options to consider right now. Many of those other options still offer a dividend and trade at a huge discount right now.

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