



Has Cineplex Stock Hit the Bottom at Last?

Description

Movies – they’ve always been a source of escape, sometimes even a source of inspiration. As **Cineplex Inc.** ([TSX:CGX](#)) navigates its way in these new tumultuous times, has Cineplex stock finally hit bottom? I’ve called it before. And I’m calling it again. I believe that Cineplex’s stock price is in the bottom range of where it will likely trade in 2023 and beyond. I have many skeptics against me, but hear me out first.

Here’s why I believe that Cineplex’s stock price has hit bottom(ish) and will be trading significantly higher in the coming year.

Moviegoers are returning

The pandemic really played a number on cinemas. Today, as the pandemic fades into the background, Cineplex is still recovering. Lingering effects, such as movie release delays and crowd-shy moviegoers, continue to burden the company. In fact, management has said that they believe it will take another year or two before box office numbers get back to pre-pandemic levels. That would bring us to early 2024 at least.

Considering this, it’s no wonder that investors have really soured on Cineplex stock. But let’s dive a bit deeper by going over a few important points. First, we must make note that a recovery is happening in a big way. For example, in January, the box office was 88% of pre-pandemic levels. This follows the more dismal fall months of operating at as low as 52% of pre-pandemic levels.

Next, we have the shift toward premium offerings. In the last quarter of 2022, premium offerings such as VIP accounted for 50% of Cineplex’s box office revenue compared to 41% for the full year. The rise of this segment is a clear success story for Cineplex. It essentially makes Cineplex’s business much more profitable.

Cineplex gets smart (again)

Grappling with the lower box office numbers last year motivated Cineplex to once again think about new ideas. This is a fluid situation, but I'd like to highlight a few here to give you an even greater sense as to why I'm so optimistic on this stock.

In order to reach a broader target market, Cineplex has delved into international films. For example, Bollywood films have been a mainstay in select cinemas. Also, Anime films from China and movies from Egypt and Thailand are helping to further diversify Cineplex's film content and international offerings.

Furthermore, Cineplex management has been testing out different pricing strategies for different target markets. As an example, it's been well established that the older "senior" age group has not returned to the theatres as their younger counterparts have. This is understandable, as [COVID-19 fears and concerns](#) are obviously much higher among this age group. So, to try to entice this group to head back to the theatre, Cineplex is reducing ticket prices for certain movies targeted toward that group. For example, the ticket price for the movie "80 for Brady" is \$8.25 for all. This compares to a senior's ticket at \$9.50 and a regular ticket at north of \$13.50.

I know that the knee-jerk reaction when we see lowered prices is to panic about the business. However, we have to take into consideration that premium movie tickets like VIP are selling for as high as \$25 per ticket.

Management has the luxury of marketing the major movie exhibition player, with 80%+ of the market. They can, therefore, play around with pricing to find the optimal strategy. So far, moviegoers are reacting really well to most of Cineplex's offerings, seemingly happily paying premium prices for premium experiences.

Cineplex (CGX) stock is ultra-cheap – and likely won't stay that way much longer

I'm of the view that Cineplex's stock price is [grossly undervalued](#) and the movie house is misunderstood – to help Cineplex get through this year, it has significant tax losses. This means that the company will only have to pay minimal taxes for the next two years.

Trading at a mere 15 times 2023's estimated earnings and 8 times 2024's estimated earnings, investors clearly don't believe in it. And here is the opportunity. If they're wrong, which I believe they are, we stand to make really healthy returns if we buy CGX stock today.

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