



## Is Cineplex a Good Stock to Buy?

### Description

**Cineplex Inc.** ([TSX:CGX](#)) stock remains beaten and bruised after a long three years of pandemic life. Today, as we head out of the worse of the pandemic, Cineplex is beating expectations and posting impressive results.

Please read on as I share why I believe that Cineplex's stock price is grossly undervalued as it heads into a very promising future.

### Diversification strategy yields rewards

For Cineplex management, the writing was on the wall years ago – streaming was and would continue to eat away at movie exhibition (movie theatre) attendance. So, it was then that they decided to diversify. In was a plan that would take millions of dollars in capital spending and much effort.

In short, Cineplex's recreation room and games strategy emerged. And the rec room was born – a place with “great games, mouth-watering eats, and amazing entertainment,” all under one roof. Also, Cineplex media was created, a cinema advertising network. Through this division, Cineplex effectively places advertisements in their pre-show time slot. They also place digital signage in malls, stores, and other places of business in order to help advertisers more effectively connect to the consumer.

Today, Cineplex's revenue from sources other than movie exhibition accounts for 34% of total revenue. This is a far cry from just a few years ago, when the movie exhibition business was effectively 100% of Cineplex's revenue. Also, this segment is growing fast. In the media segment, revenue increased 71% in 2022. In the amusement/recreational segment, revenue increased 83% in 2022 to a record \$246.6 million.

### Shoring up the film exhibition business

Not only did Cineplex management diversify into other forms of entertainment, but they also diversified within their film exhibition business. This meant showing a broader array of films, including Bollywood

films and other international movies from places like China, Egypt, and Thailand. It also meant offering a variety of movie-going experiences, such as the VIP experience.

All of this enabled Cineplex to attract a wider audience of people with diverse entertainment needs and wants. It has also allowed Cineplex to introduce varied ticket pricing levels, thus increasing attendance and revenue per patron. For example, Cineplex's VIP premium movie experience is priced at roughly \$25+. This experience offers reclining seats, in-seat menu service, and specially designed adult-only auditoriums.

## So, is Cineplex a good stock to buy?

For me, this question comes down to a few simple facts about Cineplex. Firstly, when a stock is hated on, its [valuations are depressed](#). Secondly, if you find reasons why this hate is unjustified, the stock's valuation becomes grossly undervalued and unjustifiably low. This is what I see in Cineplex stock.

Cineplex's management has estimated that the movie business will return to pre-pandemic levels in one or two years. This is understandable, as the type of [disruption that the pandemic brought](#) with it takes time to unwind. In my view, that's a reasonable expectation. The thing that I think many are missing is that Cineplex is not the company it used to be. It is emerging from its pandemic woes a much stronger and better company. This is because it has widened its reach and it is firmly establishing itself as Canada's premier entertainment company, with little competition. In short, Cineplex is firmly securing its #1 spot.

## Cineplex (CGX) stock valuation unsustainably low – and a great buy

So, we've reviewed how Cineplex has diversified its way into some fast-growing businesses. We've also reviewed how it's changing its movie exhibition business in very creative ways that are drawing movie-watchers into the theatre.

Yet, despite all of this, Cineplex's stock price (CGX) trades at a mere 15 times 2023 and 9 times 2024 expected earnings. This is low. But add the fact that I believe these estimates are unreasonably low given the really sour sentiment which seems to have taken hold on Cineplex stock, and we can see a perfect storm coming. In my opinion, estimates and multiples will be rising as Cineplex continues to show the fruits of its successful strategy in the quarters to come.

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