AMC Stock Breakdown: Is This Meme Stock A Financial Winner?

https://www.forbes.com/sites/qai/2022/11/24/amc-stock-breakdown-is-this-meme-stock-a-financial-winner/?sh=23a66ce3492d

Q.ai - Powering a Personal Wealth Movement

|

Key takeaways

- AMC became a popular investment as a meme stock, resulting in incredible volatility.
- There are signs AMC is on the right path, with people returning to movie theaters and the company earning more per patron than before the pandemic.
- AMC has many obstacles to overcome, specifically the rise in streaming popularity.

AMC stock has been on a rollercoaster ride for over a year. The company was on the brink of bankruptcy, only to survive the pandemic thanks to - tada! - stock investors. However, should you invest your hard earned money in AMC? Or has that time passed now?

AMC Stock in the news

On November 21, 2022, AMC's stock price slid to under $8 a share. This is a considerable loss from its price of over $41 a year ago. The theater chain reported a loss of $0.22 per share for a total loss of $226.9 million in its third-quarter earnings release for the 2022 fiscal year.

This stock has seen its share of volatility and a stock split that has also shed value since late August 2022. The stock split, known by the ticker APE or AMC Preferred

Equity share, is a homage to traders on Reddit who refer to themselves as apes. Retail traders helped save the theater chain by purchasing and boosting the stock price to help it avoid bankruptcy during the pandemic.

Retail investors turned AMC into a meme stock the same way they turned Gamestop into a meme stock. Their reasoning for investing in AMC was a combination of nostalgia, a desire not to see the chain dismantled by bankruptcy, and an attempt to hold the wealthy accountable.

Many of these investors were made up of millennials who fondly remember going to AMC movie theaters to watch movies as kids. They took a stand against losing their favorite movie chain by purchasing shares in large numbers.

Additionally, hedge funds, which are investments that many wealthy people invest in, shorted AMC stock. This means the hedge fund made an investment that makes money when a stock loses value.

These funds believed that AMC shares were trading for more than the company was worth. When retail investors pushed the stock price higher, hedge funds that made the investment for a lower stock price had to purchase shares to cover their short position, resulting in losses.

AMC's CEO Adam Aron has publicly thanked the retail shareholders for helping save the company as it delivered $2.2 billion in equity. Now, the company is now positioned to move forward and expects gradual growth in 2023 and 2024.

The APE security was launched as another avenue to raise capital, but Aron views the security as a way to build equity slowly and doesn't expect it to experience rapid growth.

AMC income statement review

AMC reported year-to-date total revenues of $2.9 billion for the third quarter of the 2022 fiscal year, with $1.6 billion derived from admissions, $982.5 million coming from food and beverage, and $297.9 million generated by other theater revenues.

The chain had total revenues of $2.5 billion for all of 2021. Its operating costs and expenses include $781.7 million in film exhibition costs, $165.7 million for food and beverage costs, $1.1 billion for operating expenses and $668.8 million in rent.

It reported a net loss of $685.9 million for the nine months of 2022, compared to a net loss of $1.1 billion for the same period a year ago. For the third quarter of 2022, AMC reported a net loss of $226.9 million.

AMC balance statement review

AMC reported cash and cash equivalents of $684.6 million at the end of the third quarter. It has $125.7 million in other long-term liabilities and $56.2 million in finance lease liabilities.

Free cash flow stands at negative $278.1 million for the third quarter.

AMC stock outlook moving forward

It's evident that AMC's stock has taken a beating, but that only tells part of the story about the theater chain. In 2019, the company had $265 million in cash and managed to increase that amount to $308.3 million in 2020 despite the pandemic.

The company's cash reserves shot up to $1.59 billion, only to come down to $684.6 million by the third quarter of 2022. It's a steep drop, but it's double that of 2020, putting the company in a good position to handle the strain on its reserves.

AMC is still overcoming the impact of the pandemic's lockdowns in 2020 and 2021. Recently, it restructured its debt, moving the maturity date to 2027 while simultaneously reducing the amount of outstanding debt. This will help it return to profitability in the coming years.

The good news is attendance is returning. Before the pandemic, global attendance was 264.8 billion in 2018 through the year's first nine months and 263.8 billion in 2019. For the same period in 2022, attendance stands at 151.3 billion.

As countries continue to ease lockdowns, this number should continue to increase.

Another positive sign for AMC is higher ticket prices. In 2019, the average ticket price was $9.19 for the year's first nine months. For the same period in 2022, the average ticket price rose to $10.83.

AMC also saw increases in the amount people spend on concessions. In the first nine months of 2019, the average food and beverage revenue per patron was $4.86 compared to $6.49 for the same period in 2022. All this comes with fewer screens that AMC is showing movies on.

However, the other critical factor for AMC will be the release of new movies. Many film studios are making deals with streaming services to release new movies on these platforms. Sometimes studios completely bypass theater releases, which could impact AMC's profitability.

The bottom line

AMC's stock may never reach the same highs seen during its peak meme stock period, but it's still a viable business as people want to go to movie theaters to watch films. This has been proven over the decades, as moviegoers want the experience of seeing a film on the big screen to get a sense of inclusion that the TV, computers and tablets can't compete with.

The entire stock market has taken hit after hit due to various economic forces and an increase in the federal funds rate. AMC's loss in share price is in step with what the rest of the stock market is experiencing.

This stock is likely worth buying for a long-term hold as the CEO is looking towards the future positively and has cautious plans to improve the chain to deliver more value for moviegoers as well as stockholders.