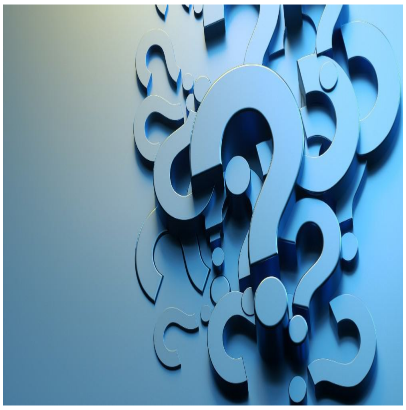

Is Cineplex (TSX:CGX) Stock a Bargain at $9?

Description

Cineplex (TSX:CGX) stock is back in the single digits, with CGX shares pulling back 3.3% on Tuesday despite the recent reopening of its locations across the country. At $9 and change, the stock is currently cheaper than the general price of admission into its theatres.

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Don't discount the risks

The company is in much need of financial relief given the profound disruption to its operations and the weak state of the balance sheet. With COVID-19 active cases picking up across various parts of the country, Cineplex may have no decision but to roll back on its reopening if things drastically worsen with this pandemic.

While the upside in Cineplex shares has the potential to be outsized if a coronavirus vaccine were to land sooner rather than later, I don't think the name is worth the risk, at any price, given the firm's limited financial flexibility.

Not only is the company at risk of insolvency amid this crisis, but longer-term damage to the company that's pulled the brakes on its diversification initiatives. Unhealthy balance sheets and limited financial flexibility often pave the way for business erosion.

Still, given the magnitude of Cineplex's decline, I think such an erosion is the least of the firm's concerns, given its liquidity reserves may evaporate and Cineplex could find itself in real hot water if theatres end up closing for another several months.

Don't buy Cineplex for the short-term box office boost

At the time of writing, Cineplex's theatres are open, as are Rec Room and Playdium locations. IfCOVID-19 can be mostly contained going into the fall season, then sure, Cineplex stock could get aquarterly bump. However, if a second COVID-19 wave hits, Cineplex locations could go into shutdown,and the stock could have no bottom in sight as investors brace themselves for a worst-case scenario.

Cineplex recently raised a good amount of liquidity (just over $300 million) that should allow it to operate at limited capacity in the "new normal" environment, with physical-distancing protocols in place. With a slate of must-see movie offerings, pent-up demand could drive a huge recovery. But of course, one can't assume that theatres will remain open for the long haul until the insidious coronavirus can be contained.

For now, COVID-19 remains an existential threat to Cineplex. Despite the outsized upside potential, I'd not dare make a bet until there's an assurance that another round of shutdowns won't end up happening heading into year-end.

Fellow Fool contributor Andrew Walker thinks that Cineplex is a better turnaround bet compared to the likes of **Air Canada**. I wouldn't touch either, but think that Walker is right in that Cineplex is a wiser bet for those comfortable making a high-stakes bet.

"On the positive side, the big screen experience remains very popular. With the **Cineworld** deal up in the air, there's a chance that one of the major streaming players could decide to buy Cineplex. In the event a bidding war emerges, the stock could take off," said Walker.

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"Contrarian investors might want to start nibbling on the stock below $10. It is possible the Q3 and Q4 attendance numbers could surprise to the upside."

Foolish takeaway

While Cineplex does have a slate of sweet movies and the possibility of a takeover could still happen, I'd discourage investors from buying too many shares, as neither pent-up demand nor a takeover is likely if a COVID-19 second wave hits in autumn.

If you're keen on the name and are willing to buy more shares after a further decline, it may make sense to nibble on Cineplex at $9 and change. But make sure you understand that just because the stock has already imploded doesn't mean it can't have farther to fall.

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