Why Are Investors Selling Cineplex (TSX:CGX) Again?

Description

Cineplex (TSX:CGX) stock has been under pressure after more than doubling off its early November lows — a time that I recommended investors pick up the stock before any one of the vaccine producers had a chance to pull the curtain on a breakthrough. Just days later, **Pfizer** revealed a 90% effective vaccine that was shown to be 95% effective later. The news sparked an incredible rally in the COVID-19 recovery plays.

Now that the page has been turned on November, it appears that the safe and effective vaccines are old news. The shot in the markets' arm is starting to wear off, and the biggest COVID-19 recovery plays like Cineplex are now back on the retreat.

Cineplex: Still a top way to maximize upside over the next 18 months?

With more clarity on the vaccine timeline, Cineplex's odds of going bankrupt at the hands of the COVID-19 crisis have been drastically reduced. While the name still has an option-like risk/reward trade-off, I think the stock has become far less risky and is worth picking up for fearless investors who seek to maximize their upside in the new year.

That said, you shouldn't fall into the FOMO (fear of missing out) trap, as the stock has already skyrocketed into the stratosphere, making shares at high risk of a significant retracement. Indeed, we witnessed a sudden reversal on Monday, as Cineplex stock fell just over 8% on a down day for many of the COVID-19 recovery plays that had begun to run out of steam after leading the broader markets higher in an epic monthly rally that was the best November in the books in over 30 years.

While I do think Cineplex is easily a $20 stock (that's a double from current prices), given the bounce-back in earnings that could be in the cards past 2022, investors should prepare for turbulence between now and the mass inoculation.

Cineplex investors: Ugly quarters up ahead

There’s a hideous quarter that’s coming up for Cineplex. Investors should expect nothing short of the worst amid surging coronavirus cases that could threaten to turn partial lockdowns into full ones. While Cineplex doesn’t have a stellar balance sheet by any means, it does have more than enough to weather this second wave of coronavirus cases. When you consider the fact that management has had ample opportunity to batten down the hatches with moves to minimize costs, I think that the odds of Cineplex surviving to see better days is high.

Moreover, with a potential end of the pandemic in sight, I find that creditors will be more flexible. And Cineplex will have less trouble raising even more liquidity as it so desires to weather further waves of the coronavirus. While Cineplex’s business has been crippled by this crisis, there is a new hope that justifies going long the stock at $10 and change.

If you’re willing to hold past 2021, an investment in Cineplex makes sense. Still, the longer-term implications of this crisis remain a massive question mark. Will the coronavirus pandemic change moviegoer habits forever? What about the blockbuster drought and the continued rise of video streamers? Will the erosion to Cineplex’s amusement diversification efforts stunt growth for years to come?

These are still challenges that Cineplex will need to tackle once the pandemic ends. If you’re confident in the firm’s ability to survive and turn the ship around, I’d look to initiate a quarter position here with the intention of scaling in gradually over the next six months. That way, you won’t need to worry too much about retracements that follow big spikes in the stock.

Foolish takeaway

Most investors simply don’t have the stomach to invest in a name like Cineplex, even with renewed vaccine hopes and the stock’s dirt-cheap valuation. If you’re a risk-taker with excess capital, though, Cineplex may one of the best horses to bet on over the next 18 months.

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