Should You Buy Cineplex (TSX:CGX) Stock Ahead of an Economic Reopening?

Description

With the pandemic likely to end over the next 16 months, **Cineplex** (TSX:CGX) stock definitely seems like a no-brainer buy that could enrich you over a very concise timeframe. However, with shares up currently up over 200% from their October lows — a time I'd urged contrarian, deep-value investors to get in before the herd recognized the severe undervaluation — it's important to weigh the potential rewards with the risks you'll bear.

Now that Cineplex investors are piling in Cineplex stock ahead of a (sustained) economic reopening, I'd argue that the stock may no longer be worth buying, given the slate of risks that still exist.

Cineplex stock has risen considerably. So too have the stakes

The price of admission has more than tripled since my early November buy recommendation, urging investors to buy at $5 and change. Many things can still go wrong, and one must not discount the business erosion suffered by the Canadian movie theatre kingpin. Moreover, I'd imagine that many speculators are guilty of playing "acquisition roulette" once again. If this pandemic unexpectedly takes a turn for the worst (mutated variants of concern are still spreading), investors could lose their shirts in a hurry. As such, Cineplex seems more like a stock with an options-like risk/reward with shares trading at around $14 and change.

Things are looking up for Cineplex, but the movie theatre giant isn't out of the woods yet

Shares of Cineplex recently surged on the back of news of a private placement notes offering of $250 million. Undoubtedly, yield-seeking investors are more willing to up their risk profiles in this ridiculously low-rate environment. Such bond sales could help Cineplex navigate through the later stages of this horrific pandemic, but one must not discount the risks that could cause the stock's recent bout of momentum to reverse course.

Cineplex has taken drastic steps to improve upon its solvency position. And if the vaccine rollout continues smoothly, Cineplex stock could easily have a multitude of upside left in the tank. On the flip side, there's not much room for error. The world is in a race with the rapidly mutating coronavirus. Right now, it seems like COVID-19 is about to be conquered, with the recently accelerated vaccine timeline and firms like **Pfizer** that are already hard at work to stay a step or two ahead of the insidious virus.

Still, the initial vaccine rollout could hit a bump between now and summer, when everybody who wants a vaccine will have their first shot in the arm. Furthermore, the end of the pandemic doesn't mean the end of COVID-19. Some experts believe the virus could plague the world for years after the pandemic ends. And its longer-term implications on the movie theatre industry in a post-pandemic environment remain unknown.

Foolish takeaway

Time is vital for Cineplex right now. Although recent offerings improve its chances of making it through another few quarters of this crisis, any unforeseen lengthening of this pandemic and its associated restrictions could spell trouble for Cineplex investors. In any case, I wouldn't look to chase the stock after its incredible run. The stock is way too hot and seems to be discounting any potential hiccups, which, as you may know, should always be considered in the valuation process.

With another brutal quarter right ahead, patient investors may have a better entry point up ahead. Just make sure you're aware of the downside risks.

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