Cineplex (TSX:CGX): The Ultimate Canadian Reopening Stock?

Description

Former Canadian dividend darling **Cineplex** (TSX:CGX) has been under considerable pressure for many years now. The COVID-19 pandemic just made the movie theatre kingpin's terrible situation that much more dire. While shares of Cineplex have been picking up traction since October 2020, with Cineplex stock now up more than 200% off its low, investors must be ready for more turbulence, as there's still no telling when we'll make a sustained return to normality.

Light at the end of the tunnel — not so fast!

With Brazil losing control of their latest COVID-19 wave thanks in part to the P1 variant, which was recently discovered in Canada, I think investors should still adopt a "barbell" approach, as there's still no telling when Cineplex will be allowed to fill seats with bums again.

Moreover, the continued rise of video streamers presents an uphill road to recovery for the Canadian movie theatre giant that can't seem to catch a break. Although I wouldn't bet the farm in a high-risk/high-reward reopening stock like Cineplex, I'm certainly not against nibbling into a very tiny partial position here, especially if the rest of your portfolio is sufficiently diversified and lacking in plays that'll profit most from a post-pandemic environment.

Cineplex stock heats up ahead of the great reopening

Cineplex stock may be picking up traction, but as you may know, momentum can turn without a moment's notice. Fellow Fool contributor Chris MacDonald seems to think that Cineplex stock may still be worth the risk, even after its ascent out of those October lows. At this juncture, the company is looking at another lost year of business and a further strengthening of its video-streaming competitors — not exactly the formula for a surging stock!

That said, MacDonald is encouraged by Cineplex's blowout bond offering, which improves the firm's survival prospects greatly, as Canada slogs along with its vaccine rollout:

“Cineplex enjoyed strong demand from investors wanting to ride the economic recovery trade and sold unrated bonds worth $250 million at a lower yield. This deal comes after COVID-19 vaccination campaigns ramped up worldwide, leading to investors positioning them for a post-pandemic reopening,” MacDonald said.

“This Toronto-based multiplex chain currently has a market cap of $766 million. From the market functioning perspective, blowout bond deals are an indication that even businesses directly affected by COVID can access capital.”

Should you buy Cineplex or wait for a pullback?

If you’re no stranger to volatility and would have put the money on Bitcoin or any other dangerously speculative instrument, Cineplex stock may be worth a second look here. There’s light at the end of the tunnel with the vaccine rollout, but there’s still another ugly quarter or two up ahead. In the firm’s latest call with investors, management noted that revenues are still down nearly 90% despite the partial easing of restrictions.

Moreover, the firm had to scramble with asset sales earlier last year to improve its unhealthy balance sheet. While even a mild amount of good news will move the needle in Cineplex stock, I can’t say I’m enthused with the risk/reward after the stock’s latest climb.

The ultimate reopening stock?

Personally, I’d wait on a pullback that may follow yet another bleak quarter. If you’re keen on Cineplex stock, though, and think pent-up demand will be met later in the year, consider buying a quarter position here and the other three quarters incrementally over time to help combat any vicious volatility.

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