



Cineplex Stock: High Risk, High Reward

Description

Cineplex ([TSX:CGX](#)) stock has surged more than 200% since plummeting below the \$5 mark to its October low. Indeed, this company is viewed as a key [reopening play](#), and investors are jumping aboard right now.

That makes sense. We're all itching to go out and see a movie or do anything outside the house. Accordingly, the anticipation around cinema stocks right now is understandable.

However, over the past month, Cineplex stock has pulled back somewhat. Let's consider a couple factors that may be at play for this complex recovery play right now.

Concerns around a third wave bearish

The prospects of a hard-hitting third wave are looking more and more likely right now. We're in the midst of yet another leg up in terms of daily case volumes and hospitalizations. Accordingly, the reopening thesis seems to have taken a step back of late.

Given the amount of leverage Cineplex stock provides to an economic reopening, such news is important to follow. Sentiment plays a big role in the company's stock price levels as well, and how retail investors view these economic data matters.

Indeed, Cineplex's balance sheet leave a lot to be desired right now. The company's revenue has slowed to a trickle, and there's really no fundamental analysis that can be done on this stock right now. Accordingly, it's a "leap of faith" of sorts for investors who are very bullish about the near-term reopening prospects here in Canada.

Accordingly, a slower vaccination rollout appears to be bearish for this Canadian cinema chain. How soon Canadians get vaccinated and how open the government is to lifting restrictions are two key factors at play with this stock that can't be ignored by investors.

When should investors take a position in Cineplex stock?

Right now, it appears Cineplex is on decent footing. The company's management team has said it has enough liquidity to last awhile. However, if the company needs to tap outside debt or equity markets again, should the pandemic pick up steam and the reopening take longer than expected, all bets are off in this regard.

In this sense, I think it's risky to take a position in Cineplex right now. Yes, it's an attractive reopening thesis, if everything plays out perfectly. However, I think a lot of optimism is baked into the company's current share price right now.

There's certainly hope that vaccine rollouts should accelerate, and there's some potential for a full-fledged reopening early next year. However, for cautious investors, waiting patiently on the sidelines may be a better move right now.

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