Cineplex Stock Is a Buy, But Beware of This 1 Risk!

Description

After the initial fear wore after the market crash last year, investors quickly realized what excellent opportunities existed. For months now, investors have seen huge returns as stocks have rebounded from their lows and, in many cases, reached new highs. However, some stocks, like **Cineplex** (TSX:CGX), have been impacted far worse than any other.

So nearly a year and a half into the pandemic, Cineplex stock has been badly impacted. In some provinces, all of its locations remain completely closed.

Recovery stocks like Cineplex have lagged the market for some time as these businesses are way different from any other company.

Now, though, Cineplex stock has picked up some momentum and looks like it could finally be a buy. If you're considering an investment in Cineplex stock, though, I'd be careful of this risk.

Buy Cineplex stock as a long-term investment

First and foremost, before you even consider buying Cineplex, make sure it's for the right reasons, and you're making a long-term investment.

You might be buying Cineplex stock for short-term gains and its potential to rally rapidly while it recovers. However, you should only consider that if it's actually a stock, you'd own long term.

If things go south, which is entirely possible, you could be left holding it for a while. So if you're trying to speculate on the stock price of Cineplex, you're making the investment a lot riskier.

If you plan to hold the business for the long-term, though, then should negative impacts materialize, you can use the opportunity to double down on your position.

Why things could go south

The one main risk with an investment in Cineplex is the uncertainty factor we are still facing. We have seen plenty of times already, Cineplex's recovery getting derailed. And while this time around seems to be different, it's crucial to be mindful that we aren't out of the woods yet.

We are getting really optimistic this time with vaccination rates rising. However, there is still a lot of uncertainty going forward. This uncertainty means that an investment in Cineplex stock still comes with significant risk, especially since it can be majorly affected by shutdowns and stay-at-home orders.

For some investors, though, the risk will be worth the reward. Every day we vaccinate more people, and case counts drop, that risk erodes slightly. So once you decide you're comfortable buying Cineplex stock for the long run, then you can look at how much it's worth today and whether or not you'd have to overpay for it.

Don't overpay for Cineplex stock

Before the pandemic, when Cineplex was a high-quality business with plenty of future potential, the stock was being taken over at $34.

The trouble with buying Cineplex today is that it's tough to gauge what it could recover too. But, because it's nowhere near as strong as a position it as before the pandemic, it's safe to say that $34 will be the best-case scenario for some time.

But with most analysts' target price for Cineplex below its current market price, how much is the stock actually worth?

We don't know what life after the pandemic will exactly look like and how much Cineplex's businesses will recover, or how long it may take. Furthermore, its razor-thin margins could be impacted again.

So while Cineplex looks attractive and is certainly primed for a recovery rally, I'd certainly be careful not to overpay for the stock.

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