1 Stock I’d Avoid Buying This Week

Description

The year 2021 turned out to be great for stock investors, as the market continued to reach new heights, despite several uncertainties and concerns. Easing restrictions and improving business environment drove a massive rally in many sectors. However, a handful of sectors, like aviation, travel, hospitality, and entertainment, still continue to struggle due to the emergence of new coronavirus variants. That’s why investors need to be careful while buying stocks in the near term. In this article, let’s look at one such Canadian stock that I’d avoid buying this week despite its recent rally and some positive developments.

Avoid this stock right now

As you might already know, **Cineplex** (TSX:CGX) is a Toronto-based popular entertainment firm with a market cap of around $840 billion. It operates more than 170 movie theatres and entertainment venues across Canada and the United States.

The global pandemic-related restrictions badly affected Cineplex’s overall business last year, forcing its movie theatres and other entertainment venues to close. As a result, the company burnt about $629 million of cash in 2020, and its revenue tanked by 75% from a year ago. While investors were hoping for a big financial recovery for Cineplex in 2021, the emergence of new COVID variants from time to time extended restrictions, postponing its financial recovery. With this, the company continued to burn cash in the first three quarters of 2021 as well.

But CGX stock is still up

Despite its delayed financial recovery, CGX stock has largely traded on a positive note this year. As of writing, the stock was trading with 43% year-to-date gains — nearly double compared to the **TSX Composite Index**’s 22% advances in 2021. While it continues to struggle financially, investors’ high expectations for a big recovery could be driving Cineplex stock up.

Another key factor that has driven CGX stock higher lately is its recent legal victory over **Cineworld Group**

. This victory came months after the Canadian entertainment company sued Cineworld for backing out of the Cineplex acquisition deal, which was expected to be around $2.8 billion. Earlier this month, the Ontario Superior Court of Justice ruled in Cineplex's favour, ordering Cineworld to pay nearly $1.24 billion in damages for breach of contract. While Cineworld has confirmed to appeal against this ruling, this news still boosted Cineplex investors' confidence and triggered a buying spree in its stock. That's why Cineplex stock rose by about 12% on December 15.

But avoid buying it now

While Cineplex's legal victory over Cineworld is certainly a positive development, I don't think CGX stock deserves to trade with 43% year-to-date gains given its continued poor financial performance in 2021. Also, the new Omicron coronavirus variant is increasing uncertainties for businesses like Cineplex, which could delay its financial recovery further. These factors could lead to a downside correction in CGX stock in the near term. That's why I find its stock worth avoiding right now until either its financials start showing some concrete signs of recovery or it becomes too cheap to ignore.

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