



Should You Invest in a Potential New NHL Team?

Description

Even though many professional sports teams are consistently cash flow negative, they've still been a great investment over the last few decades.

There are many reasons why. Owning a sports team is far more fun than a stock portfolio. There are many tax benefits as well. And there's no better way for a billionaire to gain goodwill than to buy a struggling sports team and pour money into turning it around. Mark Cuban has made himself a celebrity by doing just that.

There are more than just vanity reasons for buying a sports team, especially for a media company. Buying a team is a way to invest in high-demand content that's practically guaranteed to make money. It also gives the media owner opportunity to cross-promote its other products, whether it's in the arena or on television.

Knowing all that, it isn't much of a surprise **Quebecor Inc.** ([TSX:QBR.B](#)) was very interested when the NHL announced it would allow all interested parties to officially apply for an expansion team. The company has long been a supporter of a return of NHL hockey to Quebec City. The municipality is cooperating as well, building a new 18,259-seat arena just for a new team that is on schedule to be completed in September.

Quebec City seems like a slam dunk expansion team. It'll have deep-pocketed owners, as well as the goodwill surrounding professional hockey heading back to Quebec City. Add in the new arena, and there isn't much the NHL can object to.

It also looks to be a great deal for Quebecor. Yes, the \$500 million expansion fee is a steep price to pay, but having the rights to show every game will be a huge boost to the company's sports channels. And let's not forget about the opportunity to promote other Videotron services, including the company's newest venture, wireless.

But should investors eager to invest in the NHL do it through Quebecor? That's where things get a little more tricky.

The investment case for Quebecor

The first thing that concerns me about investing in Quebecor is its balance sheet. The company has more than \$6 billion in total debt, compared to total assets of \$9.3 billion. Intangible assets make up nearly \$3.8 billion worth of the total assets.

Essentially, the company owes more than it owns if you exclude the intangible assets. That's not good, especially considering how it would most likely have to borrow the \$500 million expansion fee.

On an earnings basis, things look a little better. The company trades at a price-to-earnings ratio of more than 120, but that's affected by some non-cash charges. Stripping out these charges, the company earned approximately \$210 million over the last 12 months, which puts it at a "normalized" price-to-earnings ratio of about 18. That's about the same as competitors.

Quebecor has grand plans to expand its wireless service outside of its home province, recently acquiring spectrum in Canada's largest cities. But rolling out retail stores and a marketing campaign takes money, cash it may have trouble borrowing, especially if it spends aggressively on the new NHL team.

And compared to its peers, Quebecor's dividend is pretty poor. The company pays just \$0.04 per share quarterly, good enough for a yield of 0.5%. Its competitors boast dividend yields up to 10 times larger.

Quebecor represents an interesting opportunity to invest in a new NHL team, since the new team will be a larger part of it compared to **Rogers Communications** or **BCE**. But other than that, I can't see much to get excited about. Quebecor has a lot of debt to repay, and faces an uphill battle expanding its wireless offerings across Canada.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:QBR.B (Quebecor Inc.)

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/07/08

Date Created

2015/07/23
Author
nelsonpsmith

default watermark

default watermark