Why Corus Entertainment Inc. Blows Cineplex Inc. out of the Water as a Better Value Play

Description

With Canadian media and entertainment company **Cineplex Inc.** (TSX:CGX) recently closing below $30 for the first time since late 2012, the vast majority of discussion surrounding Cineplex has been overly positive from investors looking for good Canadian companies that are trading at a discount.

Conversely, as **Corus Entertainment Inc.** (TSX:CJR.B), an integrated Canadian media and content company, has continued to slide toward record lows, the general discussion has been overly negative in the media of late, with Corus making heads swerve with its ~14% yield.

What's interesting to me is how similar these two companies are and how differently many analysts and industry experts have treated the two companies, given the declining sector's otherwise positive fundamentals (at least for the short term) and the respective rising yields of both firms to levels much higher than historical averages.

Comparing these two companies is an interesting exercise. While both companies have many things in common (declining share price, skyrocketing dividend yield, high dividend-payout ratio, management teams intent on maintaining said dividend, declining macroeconomic trends in their respective sectors, low but nearly identical return on assets and return on equity metrics), the companies differ in a number of key ways.

Bulls for Cineplex will note that the company has a near-monopoly on the cinema industry in Canada, providing Cineplex with much more pricing power than Corus. Corus, however, has been pummeled by new cable regulations aimed at providing Canadians with more choice as to which channels are included in cable packages, providing long-term instability to Corus's ability to increase prices and profitability as demand slowly declines over time.

That said, on a fundamental basis, Corus appears to be a better deal that Cineplex based on a few key metrics shown below:

Metric	Corus	Cineplex
Market capitalization	$1.71 billion	$1.95 billion
Price-to-earnings ratio (trailing)	8.5	29.9
Price-to-sales ratio (trailing)	1.03	1.29
Price-to-book ratio (trailing)	0.7	2.74
Operating cash flow (TTM)	$361.5 million	$166.9 million
Levered free cash flow (TTM)	$830.7 million	-$9.5 million
Operating margin	28,4%	6.9%
Net profit margin	11.9%	4.3%

Return on assets	4.8%	3.8%
Return on equity	8.9%	8.9%

While fundamentals are not everything, taking a look at how differently these two companies have been treated by the market should turn some heads among deep-value investors. From a “Graham-Dodd” value-investing standpoint, purchasing shares of Corus at 70 cents on the dollar based on the book value of the company’s assets and less than nine times earnings appears to be a much more attractive trade than Cineplex at nearly 30 years’ worth of earnings — earnings which are based on razor-thin margins that rely on stable or growing attendance numbers which have proven to be elusive of late.

For deep-value investors, I believe Corus offers an interesting opportunity to buy a company with a dividend cut already priced in — a cut which is likely to be announced no earlier than this fall, given the commitment of Corus’s management team to maintain the company’s dividend until the end of fiscal 2018 (August). Conversely, I would avoid catching the falling “value” knife which is Cineplex at this point in time.

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