Has Corus Entertainment Inc. Found a Bottom?

Description

Corus Entertainment Inc. (TSX:CJR.B) saw its stock take a beating after its earnings result earlier this month failed to impress investors. The share price wasn't even doing well beforehand: at over $11 before the earnings release, the stock was already down ~20% since late July. However, it would go on to see an even bigger sell-off after earnings which resulted in the stock dropping to a little under $8 for a 25% decline just a week after the announcement. In the past year, the stock has been down 35%, and with an already high yield of nearly 9% back in July, the dividend has now climbed to more than 13%.

However, there are signs that the share price has found some support: since the 19th, when the stock was struggling to stay above $8, the shares have risen more than 6%. With the stock recently coming off all-time lows, it could be a great time to invest in Corus.

The stock is still badly oversold

A technical indicator I like to use to evaluate a stock's momentum is the Relative Strength Index (RSI). A value of under 30 indicates that a stock is oversold and that it has seen excessive selling recently, while a value over 70 indicates the opposite. To put into perspective just how massive of a sell-off the stock has been on recently, consider this: Corus hit an RSI of less than 10 earlier this month. The shares have recovered and reached an RSI of 27, but that is still in oversold territory. There's no guarantee that a stock will come back up just because the RSI says it is oversold, but it does help quantify the market's overreaction.

Currently, the shares trade at a little more than 70% of its book value, and it should attract investors looking to secure a good deal. Besides trading at a very low value, there are other reasons why Corus is a great buy today.

Financials are strong despite a disappointing quarter

Corus did have a disappointing quarter and missed expectations, but it's not the disaster that the markets would have you believe. Sales were down 2%, and adjusted earnings per share were down $0.03 from a year ago. However, numbers like these don't exactly scream panic. While television advertising dragged down the results and should be a concern, that doesn't make the drop in price justified. Despite a decline in sales, pre-tax earnings were up over 5%, as lower acquisition-related costs and interest expenses helped add back some profit to the company's bottom line.

In addition, free cash flow of $83 million was more than double the $34 million that Corus banked this time last year.

Business model remains sound

Corus has an impressive portfolio of content that includes dozens of channels, including Global, W Network, HGTV Canada, Disney Channel Canada, and many others. While online streaming may present alternatives for consumers, conventional cable subscriptions aren't in any danger. With its strong content, Corus still holds a lot of the cards in the industry and can dictate how its programming is made available — whether online or through a television subscription.

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