Corus Entertainment Inc. vs. Cineplex Inc.: Which Is the Better Contrarian Dividend Stock?

Description

If you're an aggressive income investor who's looking to give yourself a fat raise, beaten-up stocks with artificially high dividend yields stand out. **Corus Entertainment Inc.** (TSX:CJR.B) and **Cineplex Inc.** (TSX:CGX) both fit the bill. Both stocks have been beaten up such that their dividends now yield 14.2% and 5%, respectively, at the time of writing.

Both businesses are in industries that are in secular decline; however, one industry is falling drastically faster than the other. When you have a look at the magnitude of each company's dividend, it's clear that Corus is in a far bigger hole, as more indebted Canadians cut the cord in favour of substantially cheaper streaming options. Cineplex is suffering at the hands of Hollywood and the lack of must-see films that have been released of late.

When comparing each company's fundamentals side by side, fellow Fool contributor Chris MacDonald notes that Corus is the far better value bet, crushing Cineplex on a vast number of traditional valuation metrics, including price to earnings, price to book, operating cash flow, and ROE.

Corus's management team has taken steps to improve its free cash flow generation, which is a huge step in the right direction; however, in spite of such fundamental improvements, there appears to be far less visibility in Corus's rebound plan, and given the vast "cable discount," I think it's unlikely that Corus will garner positive momentum again, unless more light is shed on its plans to adapt to the shift that's happening in the industry.

Corus needs to reinvest in itself to become relevant again, but there's little wiggle room with its massive dividend payout. The dividend looks stable when you consider the company's improving cash flows. I've previously mentioned that Corus is the most stable +10% yielder out there, but investors should exercise caution, because Corus may decide to cut its dividend should management decide to invest in organic growth initiatives like content creation. At this point, it looks like such an announcement would cause the stock to rally.

Cineplex has vastly inferior fundamentals and appears ridiculously expensive given its declining industry. Movie theatres are being phased out, but that's not news since the box office segment has gradually accounted for less of Cineplex's revenue stream over the last five years. Video-streaming services have been around for years and are to blame for such gradual declines, but the recent crash in Cineplex's stock price is primarily due to a dry-up in quality content being released in theatres.

There are plenty of long-term headwinds to worry about, but Cineplex is making moves to diversify away from movies and into generic entertainment offerings, like Topgolf, Playdium, and Rec Rooms. I think such a lateral move will offset some long-term headwinds; however, in the short term, Cineplex is going to struggle to lower its dependence to Hollywood, which could be in for another year of sub-par films.

Black Panther, *The Nun*, and *Solo: A Star Wars Story* are some exciting films, but on the whole, I'm sure you'll find that 2018 may not be a year full of Hollywood blockbuster hits. And not even the showing of National Live Theatre's *Hamlet* nor price increases will be the answer to the company's short- to medium-term problems.

That said, I believe Cineplex is a more compelling long-term buy than Corus, because it has a more promising long-term plan. In a decade from now, Cineplex will have profoundly reduced its dependence on Hollywood, as its revenue stream will be more diversified and will thus be more immune to such blockbuster droughts.

Corus's business model in a decade from now is far less certain. Video-streaming services are going to be competing with one another, and it'll be a war for market share as prices go down with content quality rising. Cable cutting will likely accelerate, and I find it likely that Corus will ink a deal with a streaming service as a content provider.

Bottom line

I like Cineplex better than Corus, despite it being the more expensive stock. The long-term trajectory is clearer, and an end to the Hollywood blockbuster drought will spark a relief rally in shares. Given this year's movie lineup, I don't think 2018 will be the year for such a rally, unless Cineplex becomes active on the acquisition front, which I believe is the more plausible trigger of a sustained rally to higher levels.

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Author
joefrenette