Cineplex Inc. (TSX:CGX) vs. Corus Entertainment Inc. (TSX:CJR.B): Which Dog Will Prevail?

Description

Buying a stock that's in freefall mode can be pretty dangerous, but that hasn't stopped some investors from attempting to catch these falling knives as the potential to make a quick buck from a sudden bounceback exists.

If you're going to make the plunge into a stock that's exhibiting a considerable amount of negative momentum, then at least ensure you have several sound points as to why you believe a stock is mispriced and is hence overdue for a near-term upside correction.

Often, falling knife stocks are in freefall mode for a very good reason.

If a stock has lost significant ground (+40%) relative to the broader market, odds are that a stock's underlying businesses is within an industry that's in secular decline. And if that's the case, you'd better be sure you've considered the external macroeconomic variables as a part of your investment thesis because even the best management team in the world can't control external headwinds.

Cineplex Inc. (TSX:CGX) **and Corus Entertainment Inc.** (TSX:CJR.B) are two popular falling knives that aggressive investors have been looking to as potential deep value plays. Both names are within industries that are in secular decline (movie theatres and cable TV), but only one of these stocks, I believe, makes sense to bet on at these levels.

Without further ado, let's take a closer look at each stock:

Cineplex

The movie theatre business is in secular decline. Attendance is nosediving thanks to the rise of the rise of the stay-at-home economy, which I believe is only going to continue picking up traction as the video streaming market becomes more crowded.

Cineplex stock plunged 48% from peak to trough, and at the time of writing, anybody who's trying to a call a turnaround in the stock here is attempting to forecast box office numbers — an endeavour that I believe is akin to taking a shot in the dark.

Although the box office segment is a dud, the amusements business looks like a very promising means to diversify away from the dying movie theatre business. The transition won't be easy, however, as it'll take a considerable amount of time and money for Cineplex to grow its amusement business such that the company will no longer be at the mercy of Hollywood.

Corus

The rise of the video streaming market has also hurt Corus pretty badly. The stock down well over 80% peak to trough and as advertising revenues continue to falter, I think it would be wise to stay far away from Corus no matter how much cheaper the stock becomes.

The company recently reduced its dividend, as I predicted in early June and with little to nothing to turn the business around, I think the bottom-fishers will stand to get hurt by attempting to initiate a position.

While targeted ads may provide marginal relief, the fact of the matter remains that cable TV is going to way of the dinosaur, and if Corus doesn't jump on the streaming bandwagon (or sell its assets to a streamer), I think the stock will continue to get punished until it falls into penny stock territory.

Foolish takeaway

Corus is a complete train wreck right now, so I wouldn't advise touching the stock with a barge pole in spite of seemingly superior near-term fundamentals. There's no growth left to offset the negative impact of the continued secular decline.

Cineplex, on the other hand, has an intriguing means of reinventing itself. And in five years, I believe Cineplex: the Entertainment and Amusements Company will be in much better shape than it is today.

As for Corus?

I'd be shocked if shares are worth more than a dollar in five years from now.

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