



## Is Corus Entertainment Inc. (TSX:CJR.B) a Deep-Value Play or a Trap?

### Description

There's a considerable difference between deep-value investing, "cigar butt" investing and catching a falling knife. The latter approach isn't considered investing: it's considered speculating — and approach that often hurts investors, especially if they don't ensure proper due diligence before hitting the "buy" button.

To many of us, the differences between the three strategies are clear in hindsight, but when a stock is down a considerable amount from its all-time high, it's difficult to determine whether your approach is safe or reckless.

With deep-value investing, you've done your homework on a company in question. You've analyzed the fundamentals of the business, relevant macroeconomic factors, potential risks to your investment thesis, estimated probabilities of material forward-looking events and reasons as to why you believe Mr. Market is wrong to discount shares.

This may seem like a lot of analysis, but what I've mentioned barely scratches the surface of the homework that a prudent investor should be doing before taking the plunge into a battered name. You should also realize that many speculators and short-term traders are going to exacerbate stock price movements, as they hope to make a quick buck from a potential sudden bounce back in shares.

It's a high-risk/high-reward scenario, but it doesn't have to be. If you've done all your homework and have recognized a relative margin of safety, then you'll have the confidence to ignore the short-term fluctuations in the stock and buy more when the short-term thinkers throw in the towel on their speculation.

Consider **Corus Entertainment Inc.** ([TSX:CJR.B](#)), an apparent [value trap](#) stock that has hurt many investors who have tried to catch it on the way down.

The company is in the media and broadcasting business with a substantial amount of revenues derived from televised ads, which are continuing to lose value in the eyes of prospective advertisers (and analysts) year after year.

Taking a top-down approach to consider macroeconomic factors at play, you'll immediately recognize that Corus is at the mercy of an insidious exogenous headwind. Cable TV subscriptions are falling, and they're likely going to continue to decline as the video streaming market continues to take off with new entrants jumping into the space with their exclusive content offerings.

Even with targeted ads thrown into the mix, Corus' ad revenues still look destined to crater over the long-haul, as there's currently no real evidence to suggest a reversal in the cord-cutting trend.

Although some evidence within the financials may be suggestive of a bottom, it's important to remember that short-term fundamental [improvements](#) are not indicative of a reversing long-term trend, especially if macroeconomic factors continue to point to continued decline (or even death) of a company's industry.

### **Foolish takeaway**

Simply put, Corus is like a "kite dancing in a hurricane" as Mr. White from James Bond once put it.

As a deep-value investor, you must consider all aspects of a business and its industry to ensure you're investing and not speculating. If something worries you during your analysis, don't risk your shirt by placing a bet in the stock in question.

In the case of Corus, macroeconomic headwinds are so insidious that they should nullify any other promising traits discovered in an analysis such as seemingly attractive valuation metrics or a sound financial footing.

Stay hungry. Stay Foolish.

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