



Corus Entertainment Inc. (TSX:CJR.B): Is This Troubled Stock Now Oversold?

Description

Contrarian investors are always searching for [battered stocks](#) that might hold the potential to deliver some impressive gains on a rebound.

Finding the right company to buy on a contrarian play isn't easy, as cheap stocks often get much cheaper before they finally bottom out. This is why investors have to be careful to avoid trying to catch a falling knife.

Stocks that carry too much debt and have lost significant market capitalization are especially vulnerable. In addition, once the share price gets below \$5, volatility often increases, and the moves on a percentage basis can get scary. At the same time, [opportunities](#) often arise when the entire market is fearful.

With these thoughts in mind, let's take a look at **Corus Entertainment Inc.** ([TSX:CJR.B](#)) to see if it is worthy of a spot in your contrarian portfolio today.

Steep decline

Five years ago, Corus traded for \$25 per share. Today, investors can pick the stock up for about \$4.20.

The plunge accelerated last month when Corus slashed its dividend in an effort to pay down debt and preserve cash flow in a challenging market. Media companies are battling for dwindling ad revenue, and assets that were once cash cows, such as TV networks and radio stations, are losing out to internet-based platforms.

Opportunity

On the positive side, Corus owns some impressive assets. It bought Shaw Media from **Shaw Communications Inc.** in 2016 in an effort to bulk up its ability to compete in the Canadian TV and radio space. The company has more than 30% of the English Canadian TV viewing market through its Global TV network and portfolio of popular specialty channels, and the parts might be worth a lot more than what the market is allocating to the stock.

Ad revenue in the television and radio segments slipped 5% and 2%, respectively, on a year-over-year basis in the latest quarter, but margins remain steady, and Corus still generated \$87.7 million in free cash flow compared to \$82.5 million in the same period last year.

Debt

Long-term debt is about \$2 billion, which is high for a company with a current market capitalization of about \$900 million. Corus has access to \$300 million in an undrawn credit facility.

Takeover potential

Shaw has indicated it might sell its 38% stake in Corus. It's unlikely regulators will allow one of the existing communications giants to buy the entire company, so there isn't much hope of a huge takeover premium on a bidding war from industry peers. Corus tried to sell two French-language specialty channels to the media division of **BCE Inc.** earlier this year, but the deal was blocked by the Commissioner of Competition.

Private equity could step in, but investors probably won't see a windfall as a result.

Should you buy?

Corus generates solid free cash flow, and at the current price the stock looks oversold, but I would stay on the sidelines today. The stock price continues to test new lows, and things could get worse amid the uncertainty about the company's future, as Shaw tries to find a buyer for its stake.

Other opportunities exist right now.

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