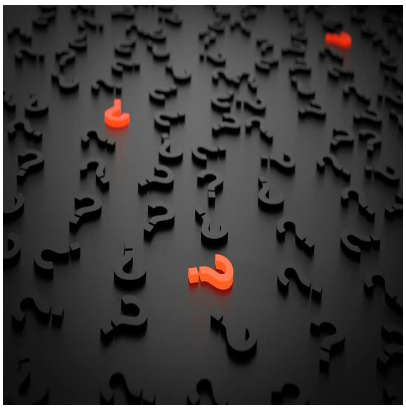

Is it Finally Time to Take the Plunge With Corus Entertainment Inc. (TSX:CJR.B) Stock?

Description

Fellow Fool contributor David Jagielski recently decided to take the plunge by picking up shares of **Corus Entertainment Inc.** (TSX:CJR.B) on the dip, citing that he's a fan of the fundamentals, the steady free cash flow stream, and the "likelihood that the company will be able to recover in future quarters."

I agree with the first two points that Jagielski noted, as they're cold, hard facts, but I'm not at all convinced that Corus is in a position to recover in future quarters, especially since the trend of cord cutting may accelerate over the next few quarters through 2019.

The trend is still very much negative, and with no evidence to suggest a reversal or a bottom, I think Corus's revenues and its stock will continue to erode until it's cheap enough to be scooped up by a rival such as **BCE Inc.** to be included in its Bell Media division.

While Corus may be generating a healthy amount of free cash flow on a consistent basis at a valuation that's seemingly attractive, I believe the lack of a meaningful turnaround plan is keeping the stock in free-fall mode by default.

Corus's recent plan to gravitate towards targeted ads may seem like it could tack on a great deal of value to its televised advertisements, but in the grander scheme of things, I think such initiatives will only provide relief over the short term and will not do much to offset the insurmountable secular decline that traditional media is experiencing.

Why cord cutting is likely to accelerate

Consumers are continuing to cut the cord, and they're saving boatloads of cash by sticking with video-streaming services, which are nowhere close to peaking.

With **Apple Inc.** slated to pump billions of dollars in the creation of new content for its streaming platform, there's no question that the quality of content in the video-streaming market is about to surge, while subscription prices will likely retreat as the streaming market becomes more competitive. Media and tech companies alike are jumping into the video-streaming market to capture a slice of the pie.

As this happens, the consumer will get a better bang for their buck when it comes to streaming services. More competition means greater content; fierce competition means lower monthly subscription prices. The consumer will wind up winning, as the monopolistic video-streaming market evolves into a perfectly competitive market. And traditional media will take a colossal gut-punch, as remaining cable subscribers make the jump to a streamer.

In Apple's recent conference call, CEO Tim Cook hinted at its streaming ambitions, stating that the cord-cutting trend will "probably accelerate at a much faster rate than is widely thought."

Cook is a brilliant steward, and I think he's right on the money. The worst has yet to come for the trend of cord cutting, and firms like Corus could continue to feel even more pain over the next few quarters, as new streamers like Apple enter the market.

Foolish takeaway

Corus's recent dividend reduction was a step in the right direction; it appears debt repayment and old media consolidation are on the mind of management, but both initiatives will do nothing to offset the pressures caused by the rise of video streaming.

Corus stock trades at a 0.6 P/B, a 0.5 P/S, and a 2.5 P/CF. That's really cheap, especially when you factor in the amount of free cash flow the company generates.

With no compelling turnaround plan though, Corus looks like a speculative bet that may only end up paying off in the event of a takeover. Moreover, I think we'll see Corus stock shed even more value as cord-cutting trend accelerates.

I think the stock could get a lot cheaper, so I'd wait patiently on the sidelines and give the negative momentum a chance to subside before initiating a position.

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