Corus Entertainment Inc. (TSX:CJR.B) Could Realistically Double — But There's a Catch!

Description

The accelerating trend of cord-cutting combined with the slow and painful death of traditional televised media has made its mark on **Corus Entertainment** (TSX:CJR.B) stock. With shares now down 85% from its all-time high, many deep-value investors continue to attempt to catch the falling knife in hopes that subtle improvements would be enough to send the stock correcting to the upside, potentially doubling over a very short time frame.

Unfortunately, most aggressive contrarians have failed to catch the bottom thus far in a name that looks to be in an unstoppable death spiral thanks to the profoundly powerful secular headwinds that may ultimately be insurmountable for Corus or any of its peers.

Through the course of decades, many firms have died due to technological disruptors. And as the video streaming market continues to grow, one can't help but have a bleak outlook when it comes to Corus' future.

You've heard the bear case, but what about the bull case?

I've been a Corus bear on the continued stock's ride down. And while you make think the name is a low-risk short-sell given the headwinds at play, I'd argue that at this juncture, a short is just as risky, if not more dangerous, than a long position. So, if you're like most risk-averse investors, I'd recommend sitting safely on the sidelines, as Corus (like marijuana stocks) looks to be a complete speculation that could skyrocket without warning (giving shorts the squeeze) or continue on its falling knife trajectory.

What could cause the tides to turn?

Corus' management team has already ripped the band-aid off by reducing its dividend in spite of the firm's decent free cash flow generative abilities, and with that, most income investors have already thrown in the towel on the name whose large magnitude of losses are indicative of a firm that's destined to become insolvent.

That's a lot of downside that's already in the rear-view mirror.

Further, management's commitment to leveraging tech to increase the value of its ads could provide short-term relief and a short-lived dead cat's bounce in Corus shares. Although a "targeted ads" approach may seem like the answer to Corus' problems, I believe it's akin to applying a band-aid on a gunshot wound.

Sure, it may stop a tiny amount of bleeding, but in the grander scheme of things, it'll do next to nothing to reverse the underlying problem, the bullet, or in Corus's case, the secular decline of televised media consumption.

Looking at the valuation, Corus is a cheap stock. Given the magnitude of the stock's fall, this is obvious, but don't think for a second that the depressed valuation means that you're bearing less risk. On the contrary, nothing could stop Corus from getting cheaper, as I've stated so many times in the past.

It's been cheap for years now, and it'll continue to get cheaper unless a future quarter shows some sort of decelerating subscriber bleed. The "targeted ads" initiative may serve to lessen the subscriber bleed over the near-term subtly, but over the longer-term, I suspect the bleed continues to pick up as massive tech firms continue to go all-in on their exclusive video streaming services, thereby inspiring even more cable cutting.

Another plus for Corus bulls at this juncture is the fact that several funds have already disposed of their Corus shares. The **S&P/TSX Dividend Aristocrats Index** and the **Solactive Global Super Dividend Index** ditched around 4.5 million and 1.5 million shares this summer, respectively.

Foolish takeaway

There are near-term catalysts (such as targeted ads and ETF liquidation) that make Corus a great short-term trade. I believe these initiatives may be severely discounted by the public who's overly pessimistic. With that in mind, I wouldn't be surprised to see Corus shares double in a future quarter as these near-term catalysts provide investors with some short-term relief.

Further, the announcement of a Corus acquisition could cause shares to pop, although I wouldn't recommend owning shares on a takeover basis.

If you're a risk-seeker who's expecting to take a double-digit percentage hit to the chin after initiating a Corus position, only then would I advise taking a chance on a Corus trade. For everybody else, enjoy the show from the rafters.

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