Do Corus Entertainment Inc's (TSX:CJR.B) Sound Financials Warrant a Massive Upside Correction?

Description

When is it "safe" to bottom-fish for **Corus Entertainment** (TSX:CJR.B) stock? That's the million dollar question that's on the minds of many contrarian Canadian investors.

In the past, I've urged investors to avoid bottom-fishing for the stock, as there were few, if any, promising catalysts that would do anything to patch up the Corus's wounds.

Moreover, the long-term fate of Corus would is reliant on exogenous factors, most notably the rebounding (or bottoming) in the consumption of traditional televised media, which would imply a slowdown of growth in streaming media. That's not a trend I'd bet on, and I don't care how great the underlying fundamentals may be for an underlying company that's decided it's going to continue to go against the grain.

From an accounting perspective, however, the company looks like a terrific deep-value stock. As I mentioned previously, Corus is still generating ample amounts of free cash flow, so the debt on the Corus's balance sheet is nothing to worry about.

While still a sustainable business at the moment (and probably over the foreseeable future), I'd urge investors to consider the bigger picture and not just rely solely on the financials.

Why?

The financials are based on past results. And while you could use them to forecast future results, without a careful analysis and understanding of the industry-wide economic factors at play, you'd essentially be speculating, not investing.

Corus bulls are likely to be analysts that are biased toward the accounting side with a lesser consideration of the industry economics at play. This narrower view of the company has resulted in abysmal results and will likely continue to do so.

The Corus bears, on the other hand, are likely biased toward the economics at play and are more concerned about the arena in which Corus is playing, not just the attributes of Corus itself. The bear thesis is that the secular decline of traditional televised media is going to continue such that old industry players become unable to compete for subscribers and will thus end up dying or operating in an uneconomical fashion to better compete with its “inferior” product.

With that in mind, one could view the bull vs. bear tug-of-war as between accountants vs. economists, respectively. Top-down investors were likely to have avoided Corus, which has been the epitome of a value trap over the past few years.

Bottom-up investors, on the other hand, would have likely lost their shirts if they didn’t ensure complete due diligence when building upon their analysis moving “upwards” toward the macroeconomics at play.

Foolish takeaway

The moral of the story is this: don’t base your investment thesis on just the accounting numbers or just the macro environment. A prudent investor must carefully consider *both* the narrow-picture (accounting numbers) and the bigger picture (macroeconomics) before making any investment decision, especially if you’re dealing with a business whose stock is in distress.

Now, considering both the accounting and the macro environment is a heck of a lot of homework to do. And as an investor, this amount of analysis makes your job ridiculously hard.

So, if you’re overwhelmed or uncertain about either the bottom or top view of a company (and industry) under question, there’s no shame in labelling a stock under question as outside of your circle of competence. As Warren Buffett once said: “Investing is a no called strikes game,” so don’t feel obligated to swing at every pitch that’s thrown at you!

Stay hungry. Stay Foolish.

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Author
joefrenette