



Is Corus Entertainment (TSX:CJR.B) Stock Making a Comeback?

Description

Corus Entertainment ([TSX:CJR.B](#)) stock has been doing so well lately, it made the *Globe and Mail's* list of Stars and Dogs for the week of October 15-19, up 8.3% on the week.

Corus is on a big-time run up 22.5% in the past month and 28% over the past three months. It's experiencing quite the turnaround; although, to be fair, it's still down more than 50% year to date through October 24.

So, the question I'm asking myself today is whether Corus is a value play, a momentum play, or neither.

Corus stock is a value play

Value is definitely in the eye of the beholder.

Fool contributor Joey Frenette believes that if you are interested in Corus's stock, you're a bottom fisher because it's got few redeeming qualities.

"Corus bulls are likely to be analysts that are biased toward the accounting side with a lesser consideration of the industry economics at play," Frenette [wrote](#) in September. "This narrower view of the company has resulted in abysmal results and will likely continue to do so."

In the same article, Frenette mentions that Corus is still generating ample free cash flow (FCF), a critical financial metric for most value investors. However, he does caution that the future is unlikely to deliver FCF growth, which is generally more important than the number itself.

If you own two stocks with \$1 billion in positive FCF and one is growing by 10% a year, while the other is losing about 10% of its FCF annually, it's easy to know which stock to ride for the long haul.

Let's consider Corus's FCF.

Its trailing 12-month FCF is \$349 million on annual revenue of \$1.6 billion. Five years ago, its FCF was \$143 million on \$804 million in revenue, a compound annual growth rate of 19%.

It's growing. That's a good thing. It's also converting more of its sales into free cash flow. In fiscal 2013, it converted 18% of its revenue; in 2018, it increased to 21%.

These are signs of a solvent business.

Of course, you could argue that it's investing less capital in its business today than it did five years ago, which ultimately would lead to a breakdown in its business, but for now let's focus on FCF.

Value investors often look for stocks that yield at least 8% on an FCF basis using FCF as the numerator and enterprise value as the denominator. With a current market cap of \$1.1 billion, cash of \$95 million, and \$1.9 billion in long-term debt, I get an FCF yield of 11.9%, well within the value investor's criteria for consideration.

So, from where I sit it is a potential value play.

Corus stock is a momentum play

For help on momentum investing, I'll look to my Foolish colleague Brian Pacampara, who's actually a value investor, but wades into momentum stocks on occasion.

He [looks](#) for companies whose stocks are up more than 15% over the past month and are growing revenues by at least 15% or more in the trailing 12 months. However, he does caution that momentum investing is tricky and requires more homework than merely doing a stock screen.

Corus meets the first criteria — up 22.5% in the last month — but its revenue over the previous 12 months hasn't budged. However, its fourth-quarter results were better than expected with a small decrease in revenue and an increase in segment profits. On an adjusted basis for the entire year, Corus grew adjusted earnings by 8%.

It does meet Pacampara's growth criteria, but the sky doesn't appear to be falling either.

The bottom line on Corus stock

Corus paid out \$226 million in dividends in 2018. That's 65% of its free cash flow, suggesting it's got plenty to keep paying it.

At a 4.8% yield despite its recent gains, it is a stock that lies squarely in both the value and momentum camps.

That said, I wouldn't use the college fund to buy Corus stock.

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