Up 40% Over 6 Months, Could This Entertainment Stock Beat Netflix in Canada?

Description

Television giant **Corus Entertainment's** (TSX:CJR.B) stock is up nearly 40% since September 2018. It's now one of the highest dividend-paying stocks listed on the Toronto stock exchange. It's also one of the few homegrown media companies going head to head with global streaming giant **Netflix**.

Corus operates 44 different specialty television channels, including National Geographic and Cartoon Network, 15 conventional channels, including Global, 39 radio stations, multiple digital video content apps, and three studios for original content. It's fair to say Corus's roster of content touches the lives of millions of Canadians every single day.

However, the cord-cutting trend has pulverized Corus's earnings throughout 2018. Last year, it announced a $1 billion writedown in the value of its broadcast licences and slashed its dividend by 79%. Consequently, the stock was also down by more than half over the course of 2018.

In fact, even after the recent rally, Corus is currently trading at one-fifth the value it reached in 2014. In other words, Netflix's rise has been Corus's loss since *House of Cards* first aired.

Nevertheless, some investors are convinced the doom and gloom around this stock is exaggerated. After all, free cash flow is up from nearly $180 million in 2016 to over $349 in fiscal 2018. Meanwhile, the debt-to-net-profit ratio has been cut from 3.46 times to just under 3.15 times over the past two years. The net-debt-to-equity ratio is a manageable 1.1.

The stock's market value is also 23% lower than its book value, implying severe undervaluation. Some believe this allows the controlling shareholders to unlock value by offering the company as an acquisition target.

I agree. Acquisition is a genuine possibility. Corus's content deals and original content portfolio make it an attractive target for an expanding media empire. The content also has mass appeal with a particular demographic — women in large households (read: moms). The growing spending power of this demographic is highly attractive.

It’s also worth noting that Netflix’s recent push for original content is a direct consequence of the growing defensiveness of traditional media giants like Viacom, 21st Century Fox, BBC Worldwide, and Discovery Communications. All of these are long standing partners of Corus.

One of the most important media partners is **Disney**, which is planning on launching its own streaming service later this year and could be an important ally in the fight against Netflix.

Meanwhile, Corus is diversifying its portfolio with multi-platform streaming applications that allow viewers to tune in online and offers more original content for children through its animation studio Nelvana.

Bottom line

Television and radio are both industries facing large-scale and imminent disruption from the cord cutters and technology giants of the world. In the near future, there’s little doubt that more people will view content online through their phones or tablets than through a set-top box connected to their TV.

However, the market seems to have already priced this into Corus stock. Currently, CJR.B seems like an undervalued opportunity that’s flying under the radar. A buyout or major original hit seems like the most likely catalyst for unlocking value here.

Investors also need to factor in the intense competition for digital content and the growing defensiveness of large media companies while weighing an investment decision.

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