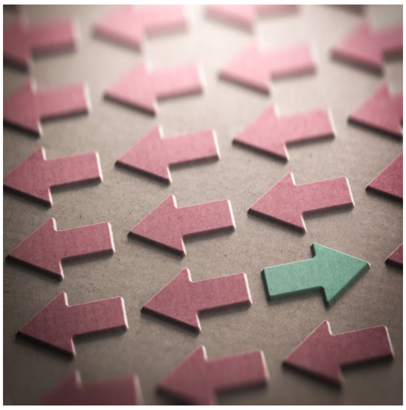

Why Corus Entertainment Inc. (TSX:CJR.B) May Be Ready to Soar Like a Bat Outta Heck

Description

Corus Entertainment (TSX:CJR.B) has been one of the greatest destroyers of wealth over the last few years. The company continued to rake in healthy amounts of free cash flow, but to no avail. Investors ditched the stock to the curb because they knew the impact of cord cutting would continue to have insidious effects on the company's profitability.

The number one way to lose one's wealth is to invest in an ailing company that's on the wrong side of a secular trend. In the case of Corus, buying the dip has proven to be a futile endeavour, as shares of the cheap company got cheaper and cheaper, as the rug was pulled from beneath the feet of investors.

That's a value trap for you.

Corus lost over 86% of its value from peak to trough, and despite the ineffectiveness of dip buying, many deep-value hunters have continued to wonder, how much pain is too much?

Over the last seven months, the stock appears to be picking up a bit of momentum after a full year of nothing but pain. With shares surging 75% from September 2018 lows, should bold deep-value investors get in on the significant price move? Or is this yet another fake out that could result in very steep losses?

Either way, Corus is not a stock for the faint of heart. The stock could very well continue to fall by default, and with no long-term fix to the cord-cutting trend, investors will likely overreact to any negative developments of quarterly earnings reports.

If you're aware of the risks and have the disposable income to put on a potential moonshot play, however, I think Corus has an attractive risk/reward trade-off.

While many analysts have encouraged investors to “buy the dip” on the entire way down, losing investors tonnes of cash in the process, I’m one of the few folks that have advocated shunning the falling knife because of the company’s dire positioning in a market that I thought would go the way of the dodo bird.

Why have I changed my stance on Corus this time around?

The value proposition and solid cash flows, which have existed for the entirety of Corus’s fall from grace, are still there. But that’s not my reason for believing Corus shares have finally hit a bottom. With a name that’s in an industry of secular decline, you have to do better than just value or fundamentals to form a solid investment thesis.

Going against the grain with a company in such a secular decline is dangerous, so one needs a catalyst that could help sustainably reverse negative trends.

With Corus, I believe such a catalyst is just starting to play out in the industry, and I think this catalyst could propel Corus back to the double digits.

As you’re aware, video streamers are the main reason for the decline in cable television. And as more big-league players enter the streaming market with major producers in the bag, one would think the problems for cable would only get even worse. You’ve got **Apple**, **Disney**, and various other scary firms stepping up to the plate with a slate of exclusive content and streaming services of their own.

While the outlook for cable may be looked at as getting bleaker, I’d encourage investors to think like a customer. Previously, you got all (or most of) your content from one streaming service like **Netflix**. It was the streaming platform to rule them all. Now that firms like Disney are pulling their content to use on their own platforms, consumers of video are getting less on Netflix and will now have to pay for a handful of other streaming services.

Just like that, $12 per month has turned into +$50 per month to juggle several streaming platforms. The higher prices and fragmentation of content draw similar comparisons to cable. In a way, customers who value simplicity may have less of a distaste for cable now as the convenience and cost-effective advantages of streaming erode.

Seeing as Corus is beefing up its lineup of premium content, one may consider Corus’s cable offerings to be akin to just another subscription, as customers become more promiscuous with their potential offerings.

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