It's a Trap! This Value Stock Is a Dud

Description

The allure of stocks that have struggled has led many investors astray. Unfortunately, investors let ownership bias take hold, and at times it gets the best of them. In other words, not every stock is worthy of averaging down.

Case in point, **Corus Entertainment** (TSX:CJR.B). Corus has been a hot topic of conversation for years. Ever since its Shaw Cable takeover, the company has struggled mightily. It is down approximately 75% pre-Shaw deal. Over the past two years, the company is down 52%.

In 2019, however, the company has seen its share price bounce off lows, hitting a 52-week high of $8.11 per share. The company posted a strong second quarter, as revenue topped estimates and grew 4% year over year. On the flip side, adjusted earnings per share slipped to $0.07 from $0.20 in the second quarter of 2018. Although topping estimates, the company is investing heavily in content, which is impacting profitability.

This brings me to the recent news.

Shareholder disposal

When the company purchased Shaw Cable, it did so by issuing a significant number of shares. Furthermore, for a year post-acquisition, all former Shaw Cable shareholders were required to receive their dividend in Corus shares. Yielding 10% at times, this resulted in considerable shareholder dilution.

Last week, its majority shareholder, **Shaw Communications** took full advantage of the recent price surge. It announced that it was exiting its position in Corus through the sale of its +80 million shares. Here is the kicker: the price of the offering was $6.80 — a 16% discount to Corus's trading price.

It's no secret that Shaw has been looking to dispose of its position for some time. Unfortunately, it was unable to find a buyer and selling at multi-year lows didn't make sense. With Corus's share price up more than 50% in 2019, the disposition was opportunistic.

The net effect was that Corus's share price was sent crashing once again. It has since settled in the mid-six range. Shareholders can expect Corus's share price to remain depressed for quite some time. It will take time for the market to absorb 80 million shares, which accounts for approximately 40% of the shares outstanding.

Foolish takeaway

Shaw saw an opportunity and took full advantage. Although the company has had a strong start to 2019, it is still expected to post negative growth through 2020. On average, analysts expect the company to grow earnings by a mere 0.55% on average over the next five years.

It's not all bad. The company generates a considerable amount of free cash flow and has been paying down debt. The problem, however, is there is little to no growth. This makes it a riskier play that is prone to considerable market volatility. There are safer value plays with healthy growth rates whose traditional business model is not under attack.

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