3 Reasons You Should Sell Corus Entertainment (TSX:CJR.B) Right Away

Description

Corus Entertainment (TSX:CJR.B) has had a rough few years. The stock has lost nearly 75% of its value since 2014 and nearly half its value since mid-2017 alone. Meanwhile, the digital media landscape has changed dramatically and a rise of new competitors have dwindled the company's prospects for future growth.

Nevertheless, the stock is up 33% year to date, and the company has been signalling a financial turnaround. While optimistic analysts raise their price targets on the stock, here are three reasons investors should still be wary of the company.

Content frenzy

Corus stock was trading at an all-time high when *House of Cards* premiered on **Netflix**, kicking off a new era of digital entertainment and a new framework for content delivery. Netflix's tremendous success over the past six years has galvanized media giants such as **Disney** and inspired technology leaders such as **Apple** to join the race. All three are now pouring billions into content creation.

Relatively tiny Corus doesn't have the tech savvy, the brand recognition or the deep pockets the upcoming content war requires. It's difficult to see how the firm will negotiate fair prices for content licences, expand its streaming service across the world, keep subscription prices low enough to attract viewers, or attract top movie and television talent to create original content.

In my view, an acquisition of its original content assets or a buyout of the whole company is the best hope the management has.

Debt load

Corus's balance sheet is split nearly evenly between debt and equity. There's 9% more debt than equity on the book, which isn't necessarily bad. However, a lack of growth magnifies this debt burden.

Analysts expect the company to grow earnings at a mere 0.55% annually for the next five years, which makes the debt burden seem nearly insurmountable without external funding or a sudden windfall. This means management will be on the back foot during any potential takeover or content licensing negotiation with bigger players. It could also imply a potential cut of the lucrative dividend the company currently offers.

Stock is at peak value

Insider selling is usually a clear indicator of overvaluation. A few weeks ago, **Shaw Communications** , Corus's parent organization, decided to offload its entire 38% stake at $6.80 per share. The stock currently trades at $6.5, which means it is still very close to the fair value its largest stakeholder assigned to it last month.

In my opinion, this is the clearest sign that Corus is at its peak. Investors should take the opportunity to follow the Shaw family and divest while the price is still fair.

Bottom line

Corus has eroded shareholder value precipitously for years. Meanwhile, the digital content industry has been transformed by technology leaders and media juggernauts with deep pockets. The company's financial position leaves it in a vulnerable position just as the content war heats up.

However, the stock is up by a third so far this year, and analysts are more optimistic about a turnaround. The Shaw family took this recent spurt in market value as an opportunity to sell their entire stake, and I believe retail investors who've held the stock for a while should do the same.

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