Attention Value Investors: This Forgotten Stock Is Still Ridiculously Cheap

Description

Back in 2018, it seemed **Corus Entertainment** (TSX:CJR.B) was all investors wanted to talk about. The stock was incredibly popular.

Some of this attention was likely because of Corus's succulent $0.095-per-share monthly dividend — a yield that peaked at nearly 20% as the stock sold off. The payout was cut during the latter half of 2018, checking in at a much more reasonable $0.06 per share each quarter. That's still a 4.5% payout today.

Let's take a closer look at Corus, focusing on whether the company has moved past last year's troubles.

Still one of Canada's cheapest stocks

2019 started out great for Corus investors. The stock soared from a low of under $5 back in January to a 52-week high of more than $8 in May. But shares have been decidedly weak since, falling back to Friday's closing price of $5.32. The stock hasn't been this low since January.

So, what happened? Firstly, **Shaw Communications**, which owned more than 80 million Corus shares that it received when Corus acquired its television stations, announced its intention to sell the position. Shaw sold at a discount compared to the stock price at the time.

Then Corus came out with third-quarter earnings. Although those numbers were pretty good — including a 10% increase in television advertising revenues for the quarter — Corus shares are down close to 15% since those results came out.

The next quarter should be good as well, with an upcoming Canadian federal election driving ad spending.

Through the first three quarters of 2019, Corus has delivered $216.4 million in free cash flow. Based on that number, Corus can expect to generate another $72 million in free cash flow in the fourth quarter, bumping up its full-year free cash flow to nearly $290 million. Corus has a market cap of just $1.1

billion. This gives the stock an incredibly cheap price-to-free cash flow ratio of just 3.8 times.

In other words, an investor who buys Corus stock today would get their money back in free cash flow in under four years. That's amazing, even if you project further weakness in the television advertising space.

Repairing the balance sheet

Corus took on a lot of debt when it made the big acquisition from Shaw back in 2016. It's slowly chipping away at that debt, further reducing risk with each dollar that gets paid off.

Over the last year, Corus has paid off approximately $200 million worth of long-term debt, decreasing that number from $1.9 billion to $1.7 billion. This has a nice compounding effect; with each dollar in debt paid off, interest is saved. This increases the bottom line, which can then be used to pay additional borrowings.

Net debt to segment profit dipped below three times during Corus's most recent quarter — a goal the company had for the end of fiscal 2019. It achieved the objective a quarter early.

Embracing technology

Corus is doing a nice job ensuring even millennials who have cut the television cord are still continuing to watch its channels.

Firstly, most of Corus's major channels offer ways for viewers to watch ad-supported shows on their websites or via apps on smart TVs. Advertising accounts for about 60% of revenues today, with most of the remainder coming from channel placement fees. Essentially, Corus is just trying to make sure it can minimize the loss of channel placement fees by getting these folks to watch anyway. It's a smart strategy.

Corus is also doing a nice job embracing technology on the advertising side. It's launching services that will be able to better match advertisers with digital content, maximizing revenue for both parties.

Finally, Corus will offer some of its channels to **Amazon** Canada's STACK service, which will give Prime members access to live feeds or on-demand programming.

The bottom line

Corus is doing everything right. The company is embracing technology, cleaning up its balance sheet, and posting excellent results. There's no reason the stock should be trading at less than four times trailing free cash flow.

At some point, the market will wake up to this opportunity. And when it does, the stock will shoot much higher. You don't want to be on the sidelines when that happens.

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