Why Corus Entertainment (TSX:CJR.B) Might Decline Further in Value

Description

Shares of **Corus Entertainment** (TSX:CJR.B) have been in a free fall for a while now. The stock has declined over 75% since December 2014. Corus is a media and content company that creates and delivers content across platforms.

The company's portfolio includes multimedia offerings across 45 television services, 39 radio stations, and 15 conventional television stations. It also has a global content business as well as digital assets.

Its television business accounts for 91% of sales, while its radio business accounts for 9% of total sales. Canada accounts for 96% of total sales.

Cord-cutting has impacted Corus sales

While television has long been a necessity for consumers, there has been a significant shift toward online streaming, which has impacted Corus sales over the years. The company's revenue fell from $1.68 billion in 2017 to $1.65 billion in 2018.

Analysts expect Corus revenue to rise by 2.5% to $1.69 billion in 2019 and estimate sales to fall by 0.4% to $1.69 billion in 2020 and 0.2% to $1.68 billion in 2021.

The company's earnings per share are expected to fall by 27.2% in 2019 and fall at an annual rate of 4% in the next five years. Corus stock is trading at a premium even if you consider its low forward price to earnings multiple of 5.6.

While the number of television subscribers is going to fall over the coming years, this will also impact advertisement revenue for Corus and its peers.

Subscriber sales account for 31% of revenue, while ad revenue generates 63% of revenue for the firm.

High debt levels are a concern

At the end of the May quarter, Corus had a cash balance of $69.22 million. Comparatively, the company has a debt of $1.7 billion. Though analysts expect Corus to reduce debt from $1.9 billion in 2018 to $1.15 billion in 2021, the interest payment will continue to impact profit margins and free cash flow.

Corus' EBITDA is estimated to fall from $576 million in 2018 to $561 million in 2021. Its free cash flow is estimated to fall from $355 million to $314 million in the same period.

Though debt to leverage ratio will fall from 3.3 in 2018 to 2.05 in 2021, investors will be concerned over the company's long-term sustainability.

Corus will be increasing capital expenditure spending from $16.1 million in 2018 to $26 million in 2021, which will again put a strain on free cash flow.

The verdict

Corus is looking to diversify its revenue base and optimize its core business. The company is looking to own and control a significant portion of its content and expand into new markets.

During Corus' investor presentation, the management stated that major brands are underinvesting in TV in Canadian markets. But this might well be a fallout driven by the cord-cutting phenomenon witnessed over the past few years.

One way to diversify revenue base is by licensing content to streaming partners such as **Netflix**, Hulu, and **Amazon Prime**. Several of Corus Entertainment brands such as *History, National Geographic* and *The Food Network* are available on the Amazon Prime streaming platform.

Corus is also actively pursuing ad-supported video-on-demand opportunities. But this transition will take time for the company to achieve revenue and more importantly bottom-line growth.

Analysts remain optimistic about Corus and have a 12-month average target price of $8.37, indicating an upside potential of 58% from its current price.

Investing in Corus is still risky, although its valuation is dirt cheap. The stock has significant downside potential, especially if the results in the August quarter are below estimates.

Investors would be advised to wait for a turnaround that might still be a year away.

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araghunath