Why Corus Entertainment (TSX:CJR.B) Stock Is a Buy Below $5

Description

Oftentimes, when a stock goes through a period of trouble, and the share price declines dramatically, it will make its way to the news. When the problem starts to become major and it gets prolonged, it can become a big issue for the company that's dealing with it.

If the situation isn't resolved quickly, the event will stay in investors' minds, and the company's name will likely be tainted for the next while.

As Warren Buffett has often said, "It takes 20 years to build a reputation and only five minutes to ruin one." This is true as well for companies in many respects.

The trouble is, even if the company does figure out its issues and get back on track, many investors will shun it due to the recent problems that are still resonating with them. This can lead to some of the best value opportunities for long-term investors.

Corus Entertainment (TSX:CJR.B) is one of those companies. It had its issues for a while, especially with its debt load, and there was growing concern among investors it would need to trim its dividend.

Finally, as revenue reduction became too big of a factor and the massive debt load left nothing for the dividend, the company took the steps to trim it severely.

Although the move was prudent, it sent the stock crashing. Now, as Corus has turned the page and is well into recovery mode, investors have been slow to react, and this has created one of the best buying opportunities of the year.

Corus just reported its fourth-quarter earnings for its fiscal 2019, so we can get a good idea of how it did for all four quarters.

The main issue that caused everything from the beginning was its massive debt load and decreasing revenues. Today, it has debt of just $1.7 billion, which is down $250 million from the previous year. If Corus can continue to reduce debt at this rate, its financial position will be a lot stronger a couple years down the line.

Two years ago, its net debt to segment profit was roughly 3.5 times, and the company has already managed to decrease that to just 2.8 times by the end of its 2019 fourth quarter.

While some subscriber revenue was down for the year, advertising revenue increased 7% over its fiscal 2018 numbers. This is a positive sign considering a lot of the fear and uncertainty around media stocks was in regard to the uncertainty of the potential loss of advertising dollars.

Corus, though, has been strengthening its operations and adding new content to its channels that it hopes will continue to help drive new ad dollars.

Television continues to be the bulk of its operations, and its margins are almost 50% better than the radio segments. Since it's already highly focused and levered to television, it makes sense that Corus has been mainly interested in acquiring content.

The dividend, though it's been cut, still has an attractive yield today of nearly 5%.

Corus, though it's still sorting all its problems out, is in much better shape than it was just a couple years ago, yet investors are still giving it the same valuation.

It's understandable that a potential decline in advertising spending could worry investors; however, Corus is already so cheap it would hardly affect it, plus it's been shown that the advertising dollars just aren't going way.

To long-term investors, Corus seems like a no brainer, and as it continues to reduce its debt each year, the company's position is only getting stronger.

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