Is Corus Entertainment a Buy After Friday’s 17% Plunge?

Description

The stock market rally in the last few months has seen some major gains for a lot of **TSX** stocks. Stocks rebounded so fast, it seems like a lot of easy money has been made.

In reality, though, for long-term investors, this was just a chance to buy your top TSX stocks and average down any positions at these ultra-low prices.

Going forward, however, almost every high-quality stock has pretty much fully recovered. And now those that remain, are businesses the market thinks will have trouble recovering or face long-term headwinds.

So, these stocks could look super cheap. However, there is a significant risk that comes with those investments.

One of those stocks is **Corus Entertainment** (TSX:CJR.B), which just reported earnings this past Friday.

TSX media stock

Corus is a media and entertainment company with radio and television assets, as well as a content-creation business.

The company has been working hard to turn itself around the last few years and was making great headway until the coronavirus pandemic hit and stopped Corus flat in its tracks.

Now, Corus is concerned only with surviving the pandemic.

And despite people being stuck at home early in the pandemic and T.V. viewership increasing substantially, the mass uncertainty has caused a lot of major advertisers to cut down substantially or suspend advertising campaigns altogether.

This is why the stock initially dropped by roughly 60% in February and March. It's also why the stock dropped substantially after the recent earnings report.

But how bad were the numbers actually?

Is Corus a top TSX value stock?

Before the earnings, Corus stock was trading at a price of roughly $3.60, which gave it a trailing price-to-earnings ratio of roughly 3.9 times. That was obviously extremely cheap.

However, because investors see trouble ahead, Corus may have become a value trap. So, how did the company do in the first full quarter since the coronavirus hit?

First off, the company saw a considerable reduction in revenue. For the quarter, Corus earned just under $350 million vs. $450 million last year. This was a decline of 24%. In total, Corus reported advertising revenues were down roughly 30% this quarter, almost completely attributable to COVID-19.

However, despite that, Corus still managed to earn just over $90 million of free cash flow.

One thing that helped offset some of the COVID-19 impact Corus faced in the quarter was the Canada Emergency Wage Subsidy (CEWS). This was a big help. However, it's unclear how much more subsidies the government will be giving going forward.

Corus also has still been committed to improving its financial position. The company had roughly $300 million available under its revolving credit facility, as well as a cash balance of $80 million.

Furthermore, its leverage as of May 31, 2020, was just 3.22 times its net debt-to-segment profit.

Bottom line

While many investors think investors should avoid Corus, I have to disagree.

The stock has been decimated since the start of the pandemic. This makes sense, as advertising has hit its lowest point in years. However, as a long-term value investor, this is when to buy.

While advertising may not rebound in the next quarter, eventually, it will, and Corus will be there to profit massively. It's already done a stellar job of remaining cash flow positive with this major impact on business. So, when things turn around, look for this stock to skyrocket.

You can collect the attractive 8.2% dividend in the meantime.

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