The Market Hates Corus Stock: Is Now Actually the Perfect Time to Buy?

Description

All throughout 2022, many Canadian stocks have sold off significantly. However, even with these major selloffs, many stocks still trade at reasonable valuations, even if they are cheap.

One stock, though, that the market has clearly been avoiding is **Corus Entertainment** (TSX:CJR.B).

Despite consistently being cash flow positive, and the fact that it's made significant strides in recent years to improve its financials and pay down debt, the market continues to avoid Corus Entertainment like the plague.

It's been ultra-cheap since the beginning of the pandemic and took another massive nosedive again in September when the company warned it was seeing an impact on advertising revenue due to the economic environment.

It's not uncommon to see advertising revenue slow down as the economy slows down, and although a recession hasn't hit yet, advertising sales are already being impacted across many mediums.

Even this morning, Corus saw another reduction to its target price from analysts covering it due to higher programming costs that analysts expect will weigh on its margins in this environment.

However, even with the temporary headwinds that Corus faces, the price it trades at today makes it unbelievably cheap. Furthermore, after its significant selloff, the stock now trades with an unbelievable dividend yield of 11.3%.

Let's look at how badly Corus has been impacted so far, why the market is avoiding the stock, how safe its dividend yield is, and, finally, just how much value it offers investors today.

What's going on with Corus Entertainment's business?

As I mentioned above, Corus has been cheap ever since the pandemic hit. At the beginning of the pandemic, when many companies were closed and lockdowns were being enforced, it saw a major hit on its advertising revenue.

Investors were worried not just about Corus's current operations but the significant debt on its balance sheet. Of course, the economy soon recovered from the initial stages of the pandemic, and so did Corus's advertising revenue.

The stock was highly profitable throughout the rest of the year as well as 2021 and used a tonne of its free cash flow it was generating to pay down debt.

That's important, because although Corus is seeing another slowdown in advertising revenue today, it has a smaller debt load for investors to be concerned about.

Furthermore, even after warning investors last quarter that its revenue would be impacted, its total revenue only fell by 6%, year over year; however, that led to a nearly 50% decline in gross profit, which is why many investors have been concerned about the stock.

Does Corus stock offer value today?

Trading at just over $2 a share and offering a dividend yield upwards of 11.3%, Corus certainly offers value. However, it offers value because it comes with risk.

Analysts don't expect the impacts on its business to persist more than a few quarters, but there's certainly the chance that it could — especially if we get a recession in 2023 that's worse than what economists and analysts expect.

With that being said, though, what Corus has going for it, is that it's constantly earning free cash flow. In fact, in the last quarter, when Corus reported a net loss and saw its gross profit fall by nearly 50%, the stock still managed to earn over $46 million in free cash flow, which is essentially enough to fund its dividend for an entire year.

While it trades at just over $2 a share and at a forward enterprise value (EV) to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio of just 4.9 times, it certainly offers investors value.

However, there's no question that it has a tonne of risk as well. Therefore, buying Corus stock might only be ideal for long-term investors with a high tolerance for risk.

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