



# CBS and Viacom Merger: High Risk Tempered by Extremely Low Valuation

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## Introduction

14 years ago the Redstone family spun out Viacom (VIA) from CBS Corp (CBS). However, the companies have decided to once again merge into what they hope will become a dominant entertainment company. Given that the entertainment market is extremely competitive and quite risky, future visibility is very muddy in my humble opinion. On the other hand, the extreme low valuation of the common stocks of both entities presents intriguing possibilities. Consequently, I present either or both stocks as interesting but risky speculations.

## FAST Graphs Analyze Out Loud Video: CBS and Viacom by the Numbers

What you will see in the following video are two examples of companies whose stocks have been in a freefall over the last two to three years despite decent fundamentals. Typically, this would be indicative of great opportunities based on irrationally low valuations. However, the prospects of the entertainment industry are both competitive and tenuous. On the other hand, as more and more people have started streaming TV online, opportunities for growth are large. Of course, that's if the combined companies can prosper as they face intense competition.

## Summary and Conclusions

As a long time value investor, I have learned to trust fundamentals over market price in most cases. However, there can be exceptions to every rule. In the case of these media companies, their weak stock prices in the context of decent fundamentals seem suspicious. Somehow, I am wondering if Mr. Market knows something that is not being reflected in historical results or forecasts. I guess time will tell.

In closing, from a pure fundamental perspective, it seems logical to assume that most of the risk is already priced into the stocks. I say this, because if these companies were able to return to historically normal valuations, the amount of short-term to intermediate-term money to be made is very large. Therefore, either or both companies might represent excellent short to intermediate-term speculations at today's valuations. From a longer-term perspective, the strength scale and scope of the combined companies could be formidable going forward. Caveat emptor.

Disclosure: No position.

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