Is Corus Canada's Most Underrated Media Conglomerate?

Description

It's a tough time to be a media company. Canadians are cutting the cord in increasing numbers, punting their cable subscriptions. Traditional radio listeners are flocking to other options like satellite radio or streaming services. Even kids' programing is being threatened by **Netflix**.

The various media companies in Canada have reacted in different ways. **BCE** (TSX: BCE)(NYSE: BCE) and **Rogers Communications** (TSX: RCI.B)(NYSE: RCI) have focused on media to boost the profit of their cable TV service. Both companies also give certain freebies to customers who bundle multiple services, like the ability to watch television on mobile devices. Both companies view media as a way to keep subscribers.

This is in stark contrast to **Corus Communications** (TSX: CJR.B), which is a pure play on media. Given that it owns some of Canada's most recognizable brands, Corus sure doesn't get a lot of attention. The company owns 22 speciality and conventional television brands and 37 radio stations across Canada. Its brands are some of the most recognizable in Canadian media, including Teletoon, Movie Central, HBO Canada, CMT, Treehouse, W Network, and YTV. The company's radio stations are among the leaders in listeners in their local markets as well.

The television segment is the crown jewel, comprising about 80% of total revenue. It's more profitable than radio, enjoying 40% gross margins to radio's 30%. It's also the division with less competition, since most of the channels it owns serve narrow niches. Television revenues are also generated by selling the rights to merchandise and by allowing other networks to show the company's internally generated programming.

Like a lot of traditional media companies, revenues have slowly shrunk over the past few years. Corus's total revenue in 2013 was down 4.6% versus 2012. The company did manage to cut costs by more than 3% during the period, taking away the sting a little. It's getting tougher to attract advertising dollars to spend on television and radio, especially since ads online can be so specifically targeted. This is a slight concern for Corus going forward.

Still, profit margins continue to be strong. The company earned $110 million in net profit on revenue of

$800 million, and that's not even including the $55 million Corus got for its share of the Food Network, which it sold to **Shaw Communications** (TSX: SJR.B). Traditional media appears to be alive and well.

Analysts expect Corus to have a nice pop in revenue during 2014, rising more than 10% on expectations of better ratings on some of its flagship stations and growth in the company's content generation business. Profit is only projected to grow a meager 1% in 2014, but the company's recent Q1 results were better than expected.

Perhaps the most underrated aspect of Corus is the dividend. The stock currently yields more than 4.5%, and that dividend has grown 80% since 2010. The board just hiked the dividend a couple of months ago, and the payout ratio on net earnings is still only about 50%. Annual dividend hikes seem likely for at least the next few years.

Corus continues to pay down its debt instead of buying back shares. Total indebtedness has fallen more than 20% over the last year, further improving the balance sheet. This focus on paying back debt has come at the expense of buying back shares, as the total number outstanding continues to creep up 2% a year.

Corus's X factor

Considering all the recent consolidation in Canada's media sector over the past few years, Corus could very well be the next target. Shaw Communications entered the space with its 2010 acquisition of CanWest Global. Both BCE and Rogers could easily swallow Corus, further adding to the media division of the winner. Corus's specialty television stations are just the kind of assets a bigger player would be looking for, and Shaw could even buy the television stations and flip the radio stations to a company with expertise in the field.

Foolish bottom line

Overshadowed by Canada's largest media companies, Corus and its $2 billion market cap don't get a lot of attention. Management has quietly built a company with solid brands, a decent moat, and a growing content creation business. Corus is an underrated member of Canada's media elite, and deserves a look for your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:CJR.B (Corus Entertainment Inc.)
4. TSX:RCI.B (Rogers Communications Inc.)
5. TSX:SJR.B (Shaw Communications)

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