

3 Reasons to Prefer Corus Entertainment Inc. Over Shaw Communications Inc.

Description

There are a lot of similarities between **Shaw Communications Inc.** ([TSX:SJR.B](#))([NYSE:SJR](#)) and **Corus Entertainment Inc.** ([TSX:CJR.B](#)).

Corus was spun out of Shaw in 1999 and owned just three television channels—Treehouse, YTV, and CMT. Over the next 15 years the company acquired other channels, including HBO and Movie Central (in Western Canada), Teletoon, the W Network, Cosmo TV, The Oprah Network, The Cartoon Network, Nickelodeon, ABC Spark, and a handful of others, including a few specialty channels in Quebec. The company also owns 39 radio stations and a company that produces children's programming, called Nelvana.

Essentially, Shaw Communications is a very similar company, just with a cable, home phone, and Internet distribution division tacked on. With its acquisition of bankrupt Canwest Global in 2010, Shaw took ownership of such media platforms as Global TV, Food Network Canada, Showcase, and Home and Garden Television.

Since the spin-out, investors have tended to prefer Shaw over Corus, mostly because of the dependable cash flow from the cable business. But perhaps it's time for investors to take a closer look at Corus. Here are three reasons why I prefer it over Shaw.

It's much cheaper

In 2014 Corus generated approximately \$180 million in free cash flow. Shaw generated \$620 million, which, at least on the surface, seems much more impressive.

But Corus currently trades at a market cap of just \$1.5 billion, while Shaw commands a market cap of \$13.2 billion. This puts Corus at under nine times its free cash flow, while Shaw trades at more than 20 times its free cash flow.

It's easy to make the argument that Shaw deserves a higher multiple than Corus. After all, the main part of its business is much more predictable than Corus'. But is it really worth that big of a premium?

A better dividend

Shaw is often listed as one of the best dividend-growth stocks on the **TSX Composite**. Since 2003 the company has raised its dividend from \$0.08 per share per year to \$1.18. That's some pretty impressive growth in just 12 years. Shares currently yield 4.3%.

But Corus also has a pretty impressive track record of dividend growth. The company began paying a monthly dividend of 4.16 cents per share in 2007. As of today that dividend is 9.5 cents per month. And thanks to the recent weakness in the company's share price, the yield is an eye-popping 6.2%.

When you look at the details, Corus' dividend looks even better. Based on its free cash flow, the

company pays out just 36% of its earnings as dividends. Shaw's dividend is still pretty safe as well, coming in at about 60% of free cash flow. Still, one of those dividends has much more room for growth than the other.

The x-factor

Every value investor knows that it isn't enough to just buy a stock when it's cheap. You need a potential upcoming catalyst, something that will unlock value. I think Corus has that catalyst with its Nelvana division.

Over the years, Nelvana has come up with all sorts of hits in Canada, producing everything from Care Bears to Rupert. These days, kids around the world are starting to grow up with Nelvana's shows, thanks to the influence of video streaming services.

If Nelvana can come up with another hit, its ability to scale it could be huge. Millions of kids around the world would watch, opening up opportunities for licensing tie-in products like toys, books, and clothes. Corus is a small enough operation that one hit could make a pretty nice addition to its bottom line.

Corus is cheaper than Shaw, pays a better dividend, and has a potential upcoming catalyst. Shaw is still an impressive company; it's just a little expensive. For my portfolio, I prefer Corus over Shaw.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:SJR (Shaw Communications Inc.)
2. TSX:CJR.B (Corus Entertainment Inc.)
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Author

nelsonpsmith

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