Dividend Investors: Has This Big-Yield Stock Finally Bottomed?

Description

As the broader market continues to touch new 12-month lows, some beaten-up dividend stocks are quietly mounting a recovery.

Let's take a look at **Corus Entertainment Inc.** (TSX:CJR.B) to see if the recent bounce in the stock is a signal for contrarian investors to buy.

Pick-and-pay fears

Corus is a victim of falling ad revenues in its radio business and the impending changes to Canadian TV packages.

Beginning in March, consumers will have the opportunity to scale down their TV package to a basic $25 offering and then add specialty channels on a pick-and-pay basis.

The new system has analysts scratching their heads as to how much damage will be done to the telecom and media companies. Some reports are suggesting a bloodbath in the broadcast industry, and others expect only minimal carnage.

The cable and telecom operators are perceived to be less at risk than pure-play content creators, such as Corus, who don't own cable, fibre, or satellite networks.

Corus has a portfolio of TV brands with much of the content targeted at kids. It creates some of the shows and controls the distribution rights for others. Under the new rules, investors have no idea how popular the brands will be when TV subscribers get the opportunity to choose which channels they want to add to their packages, and that has led to an exodus out of the stock. In fact, the shares are down nearly 50% in the past 12 months.

Here's the opportunity.

The shares have quietly mounted a 20% gain in the past four weeks as contrarian investors are starting to bet that the impact of pick and pay might not be as bad as predicted. If that turns out to be the case, the dividend is probably safe and there could be some big upside for the stock.

Corus has just announced it will buy the Global TV network and specialty channels owned by **Shaw Communications**. This should help Corus in the new pick-and-pay environment as it will diversify the portfolio beyond the focus on programming for kids.

What happened in 2015?

For fiscal 2015, which ended August 31, Corus saw its revenues slide 2% compared with the previous year, with slight drops in both the television and radio segments. Year-over-year Q4 revenues were down 4%, and consolidated segment profit fell 5%. The numbers are going in the wrong direction, but not enough to justify a 50% haircut in the stock.

Despite the difficult times, the company still generates a lot of cash. Corus reported fiscal 2015 free cash flow of $201 million, more than 10% higher than the $180 million originally expected. The stock pays a monthly dividend of 9.5 cents per share, which translates into $1.14 per share on an annualized basis. At the current price investors get a yield of 9.75%.

The company currently has about 86 million shares outstanding, so the dividend payments would only eat up about $98 million in free cash flow in the coming year.

If things are going to get really bad, then the selloff is probably justified, but if pick-and-pay fears are way overblown, the stock looks like a good bet right now.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:CJR.B (Corus Entertainment Inc.)

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