

## Is Corus Entertainment Inc. a Buy or Sell After its Recent Announcements?

### Description

**Corus Entertainment Inc.** ([TSX:CJR.B](#)), one of Canada's largest integrated media and entertainment companies, announced mixed first-quarter earnings results and its acquisition of Shaw Media Inc. before the market opened on January 13, and its stock has responded by falling about 5%. Let's take a closer look at the results and the details of its acquisition to determine if this weakness represents a long-term buying opportunity or a warning sign.

### Breaking it all down

Here's a summary of Corus's first-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Q1 2016 Actual	Q1 2016 Expected	Q1 2015 Actual
Adjusted Earnings Per Share	\$0.49	\$0.55	\$0.60
Revenue	\$228.32 million	\$205.56 million	\$227.11 million

Source: *Financial Times*

Corus's adjusted earnings per share decreased 18.3% and its revenue increased 0.5% compared with the first quarter of fiscal 2015. The company's steep decline in earnings per share can be attributed to its adjusted net income decreasing 22.2% to \$42.48 million, which was partially due to its general and administrative expenses increasing 49.3% to \$4.96 million.

Its slight increase in revenue can be attributed to its revenues increasing 1.2% to \$183.72 million in its television segment, but this was almost entirely offset by its revenues decreasing 2.2% to \$44.6 million in its radio segment.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Consolidated segment profit increased 2.8% to \$95.88 million
2. Profit increased 5.1% to \$88.04 million in its television segment
3. Profit decreased 0.1% to \$12.8 million in its radio segment
4. Advertising revenues decreased 4.7% to \$115.34 million
5. Revenue from subscriber fees increased 1.8% to \$86.95 million
6. Merchandising, distribution, and other revenues increased 25.5% to \$26.02 million
7. Cash provided by operating activities increased 5.6% to \$38.96 million
8. Free cash flow increased 3.5% to \$34.54 million

Corus also made two very important announcements.

First, Corus announced that it has agreed to acquire Shaw Media Inc. from **Shaw Communications Inc.**

for approximately \$2.65 billion. Shaw Media comprises of 45 specialty television channels, 15 conventional television stations, 39 radio stations, digital assets, a content studio, and Nelvana. Corus believes the transaction will close in the third quarter of fiscal 2016 and will immediately provide a positive impact on its earnings and free cash flow.

Second, the company announced that it will be maintaining its monthly dividend of \$0.095 per share in February, March, and April, and those payments will come on February 29, March 31, and April 29 to shareholders of record at the close of business on February 15, March 15, and April 15, respectively.

### **What should you do with Corus stock today?**

It was a decent quarter overall for Corus, but I think its stock is a strong buy today for three primary reasons.

First, the acquisition of Shaw Media is a game changer for Corus. It will immediately make Corus a category leader in many segments and boost its long-term earnings and revenue-growth potential, which will likely lead to significant appreciation in its stock price and allow it to amplify returns to shareholder through dividends and share repurchases.

Second, without even factoring in its acquisition of Shaw Media, Corus trades at a mere 7.4 times fiscal 2016's estimated earnings per share of \$1.49, which is very inexpensive compared with its five-year average multiple of 14.3 and the industry average multiple of 23.6. I think its stock could consistently trade at a fair multiple of at least 10, which would place its shares around \$15 by the conclusion of fiscal 2016, representing upside of more than 36% from today's levels.

Third, Corus pays an annual dividend of \$1.14 per share, which gives its stock a 10.4% yield, and its ample free cash flow makes this one of the safest double-digit yields in the market today. Investors must also note that the company has raised its annual dividend payment for 12 consecutive years, and its 4.6% increase in February 2015 puts it on pace for 2016 to mark the 13th consecutive year with an increase.

With all of the information above in mind, I think Corus Entertainment is a strong buy today. All Foolish investors should strongly consider beginning to scale in to long-term positions.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

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