Attention Dividend Investors: This Contrarian Pick Yields 12%

Description

The Canadian market is full of dividend stocks offering very attractive yields.

Most people are happy getting 4-5% on the safest players, and that is certainly a wise strategy to pursue. For those investors who can handle a bit more risk and are looking for value plays with a big yield to boot, there are also some interesting opportunities.

Here are the reasons why I think **Corus Entertainment Inc.** (TSX:CJR.B) is worth a closer look right now.

A tough year

Corus is down more than 55% over the past 12 months and now trades at levels not seen for more than a decade.

What's going on?

Canadian TV subscribers will soon have the option to pick a basic $25 TV package and add channels on a pick-and-pay basis. This is a huge potential threat to content producers who have traditionally piggy-backed on forced bundles under the old system.

Corus is a media company with a portfolio of assets that includes radio stations and specialty TV programs. A large percentage of the TV content has historically been targeted at kids, and that had investors nervous leading up to next month's pick-and-pay launch.

In January Corus announced a deal to purchase Shaw Media from **Shaw Communications** for $2.65 billion in a bid to beef up the variety of its offerings in the broadcast media space. The stock initially popped on the news, but has since pulled back, and it appears the market still isn't convinced Corus will be able to make a go of it under the new rules.

There is definitely cause for some concern, but the market might be overreacting.

Corus reported fiscal Q1 2016 adjusted net income of $42.5 million, or about $0.49 per share. Free cash flow for the quarter came in at $34.5 million. The company paid out roughly $25 million in dividends during the quarter, so free cash flow was more than adequate to meet the payments.

Corus is paying for the Shaw Media assets with 71 million shares and $1.85 billion in cash. This will nearly double the share base, and new debt will put some pressure on the balance sheet, but the combined assets would also have delivered $430 million in free cash flow in 2015.

The market seems to think the dividend is in trouble, even though Corus says it will maintain its annualized distribution of $1.14 per share. The payout currently yields about 12%.

If the combined assets perform as well in 2016 as they did last year, investors are off to the races.

Is that a realistic expectation?

Corus will now have 45 specialty TV channels and at least 12 conventional channels, which will give it about a third of the English-speaking Canadian TV market.

If Canadians suddenly decide they only want local news, Corus is going to be in trouble, but I doubt that is how things will play out, and I suspect the service providers will make it difficult for consumers to avoid paying up for their favourite shows. Many of the most popular programs and channels are a part of the Shaw Media stable.

Corus will soon control a broad-enough spectrum of content that it should be able to compete for coveted advertising revenue. As a result, the fears could be overblown, and investors might be looking at a sustainable dividend with some big upside potential in the stock.

CATEGORY

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TICKERS GLOBAL

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

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Date
2025/08/28
Date Created
2016/02/20
Author
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