Corus Entertainment Inc.: A 9.5% Dividend With Big Upside Potential?

Description

Once in a while the market overshoots on the downside and investors get a chance to pick up a fat dividend play with the potential for big capital gains.

Let's take a look at **Corus Entertainment Inc.** (TSX:CJR.B) to see if it fits the bill and deserves to be in your portfolio.

Tough times

Corus is not a service provider like the telcos or cable companies; it simply owns radio stations and TV programming.

As of last month, Canadians have the opportunity to sign up for a basic $25 TV package and then add channels on a pick-and-pay basis. In the run-up to the changes, investors started to get nervous about the company's chances in this new era of Canadian TV and began to exit the stock.

Why so much fear?

Much of Corus's television content was targeted at kids, and there was no way of knowing whether or not the channels would be picked up by TV subscribers under the new system.

The concerns made sense, but Corus pulled a rabbit out of the hat a couple of months ago, and that move is why the stock is now an interesting play.

In early 2016 Corus announced a deal to purchase Shaw Media from **Shaw Communications**. The acquisition closed April 1, and Corus now controls about a third of all the English language Canadian TV content.

That means it has the scale to compete with the big boys and should be able to hold its own in the new world, given the broader appeal of the media portfolio and the fact that Shaw Media owned many of Canada's top channels, including HGTV Canada and Showcase.

All in, Corus now owns 45 specialty TV services, 39 radio stations, and 15 conventional TV stations.

Dividend safety

The stock has bounced from below $9 to $12 per share, but still offers a dividend yield of 9.5%.

When payouts get that high, there is usually a cut in the cards, but the cash flow picture suggests Corus can maintain the dividend. The company just reported its fiscal Q2 2016 results, which cover operations to the end of February.

Adjusted basic earnings per share came in at $0.24 and free cash flow was just over $24 million. The company paid about $19 million in dividends, so free cash flow was adequate to give shareholders their piece of the profits.

Both the radio and television divisions remain profitable and management is excited about the synergies the company will see once it completes the integration of Shaw Media.

Risks

When the Shaw deal was announced, Corus pledged to keep paying the dividend. The combined revenue and free cash flow of the two groups based on last year’s numbers suggest that will be possible, even with the added debt and extra shares that have been issued as part of the deal.

However, this year is a whole new ball game, and it makes sense that investors are going to take a wait-and-see approach to the stock.

Revenues on the TV side could take a hit depending on how things play out with the new television rules, but the company is moving to digital distribution of its content, and that should prove to be popular with subscribers as more consumers cut the TV cord and access their preferred content via the Internet.

The radio business remains at risk even though it is still profitable. Advertising revenues in the group are falling and it is difficult to see how that will improve, even with the addition of the Shaw stations. Some benefits might be gained by attracting national ads that want to cover a broader audience, but most radio spots are filled by local companies.

Should you buy?

It is still early days in the pick-and-pay world, but I suspect the content worries are overblown, and that should outweigh challenges on the radio side. If you have a contrarian style, it might be worthwhile to add a small position to your portfolio.

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Date
2025/08/28
Date Created
2016/04/15
Author
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