



Can Corus Entertainment Inc. Maintain its Massive 9.4% Dividend?

Description

Many dividend investors follow a very simple rule of thumb: if it yields more than 5%, it's risky.

The last thing any investor wants is to own a dividend stock that slashes the payout. So they choose instead to load up their portfolio with companies that have lower (but growing) dividends. Sure, the income spun off of said investment is less, but it's also more secure.

But there are exceptions to rules of thumb—plenty of them. There are dozens of Canadian stocks that have paid yields of 6% ... 7% ... even 9% for years now with nary a hiccup. The issue is figuring out which of these stocks are likely to continue those payouts going forward.

Let's take a closer look at **Corus Entertainment Inc.** ([TSX:CJR.B](#)) and see if it can maintain its generous 9.4% dividend.

A new beginning

Back in January, Corus announced it would be acquiring the media business from **Shaw Communications**. This \$2.65 billion deal more than doubled the size of Corus, adding channels like Global, History, HGTV, the Food Network, and plenty more to Corus's portfolio of television channels, radio stations, and content production.

The new Corus was expected to generate about \$2 billion annually in revenue and close to \$500 million in annual free cash flow once synergies from the merger were complete.

What's the problem? Corus had to take on a lot of debt to make the deal happen. Before the deal, Corus owed creditors a little over \$600 million. That number has ballooned to more than \$2.2 billion. Even at a 4% interest rate, Corus is paying nearly \$90 million in just interest annually.

Cash flow

This is where things get a little tricky.

When the deal went through, Corus and Shaw were earning about \$430 million in free cash flow between the two of them. Add in \$50 million of synergies and a little growth, and investors could realistically expect an investment in Corus to generate \$500 million in free cash flow annually.

Corus has approximately 190 million shares outstanding. That translates into \$2.63 per share in expected free cash flow. That's more than enough to pay \$1.14 per share in dividends. Plus, Corus issued 71 million shares to Shaw to pay for the deal. These shares won't get cash dividends for two years after the deal closes.

The debt problem

Corus is currently sitting on a total debt-to-EBITDA ratio of approximately four, which is quite high. Debt repayment is one of management's top priorities.

According to company projections, Corus will be able to delever quite a bit between now and the end of its fiscal 2018, shrinking the debt-to-EBITDA ratio below three. And if the company does need extra cash, it has \$300 million available from a revolving credit facility.

Investors will have to keep an eye on Corus's ability to repay its debt. If there's any risk to debt repayment, it's likely the dividend will be the first casualty.

Can they do it?

Overall, I'd say Corus's management team has a good chance of making this acquisition work and maintaining the attractive payout.

The new Corus generates plenty of free cash flow, and advertising spending on its television stations should pick up as the Canadian economy recovers. Management has also repeatedly stated that maintaining the dividend is an important goal.

While the dividend looks safe, Corus is going to have to deliver some good results before it's likely that shares will head much higher. It needs to show investors that it can generate the kind of results that were promised when touting the merger.

CATEGORY

1. Dividend Stocks
2. Investing

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

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