Corus Entertainment Inc.: Is the 10.4% Dividend Safe?

Description

It's been an interesting last year for **Corus Entertainment Inc.** (TSX:CJR.B).

The highlight of the year was definitely when the company acquired the media business from **Shaw Communications Inc.**, which included television channels like Global, Showcase, Food, History, and many more.

The new, larger Corus controls approximately 35% of the market, instantly moving it from a bit player to a major one. The company expected this to pay off in a couple of major ways. First, big advertisers would be more willing to work with it because it now had greater reach. And secondly, it would be able to combine staff and office space, leading to synergies.

But thus far, the move hasn't really worked out that well. Corus recently released full-year fiscal 2016 results that didn't live up to expectations.

Corus posted free cash flow of $188 million for 2016, which is down from $201 million in 2015. That was despite revenue increasing approximately 45%. It's little wonder why shares are down more than 5% since results were announced. Investors are concerned about the long-term health of Corus's 10.4% yield.

Let's take a closer look at the payout to see whether investors can count on it in the future.

2017 looks good

Corus issued a lot of shares to pay for the big acquisition. Most of them went to Shaw, further increasing its interest in the company. Remember, Shaw spun off Corus back in 2000.

The nice thing about these 71 million new shares is they won't be eligible for cash dividends until the end of fiscal 2017. In the meantime, Shaw will get additional Corus shares instead of cash. Additionally, Shaw can't sell those shares for at least a year after the deal closes with some even locked up for two years.

That's very good news for at least the 2017 dividend.

In its most recent quarter, Corus paid approximately $25 million worth of dividends compared to $20 million in the year before. Annualized, this works out to $100 million. Corus posted $188 million in free cash flow in 2016. That's a payout ratio under 55%.

How about after 2017?

Things start to get a little dicier after 2017.

Corus currently has approximately 190 million shares outstanding. Shaw will accumulate another seven million or so, and let's estimate that existing shareholders who are signed up for Corus's dividend-reinvestment program accumulate another three million. That puts us at 200 million shares even.

Based on the existing dividend of $1.14 per share today, Corus will be responsible for $228 million in annual dividends assuming everyone takes them in cash. That's more than 2015's or 2016's free cash flow.

But free cash flow should increase. Combined, the two companies made $430 million in free cash flow in 2015. The new Corus likely won't be able to do that, since it now owes $2 billion to creditors and must pay interest on that debt, but it is certainly capable of posting free cash flow better than in 2016.

Say Corus is able to post $400 million in free cash flow in 2017. After paying dividends of approximately $100 million in cash, there will be money left over to plunk on debt. This further adds to free cash flow because of the interest savings.

And remember, Corus should still be able to save money on synergies, something that really hasn't happened yet.

The bottom line

Corus desperately needs to start posting the numbers it told investors it would when the big acquisition was made. Without those improvements, shares will still struggle.

The company should be able to maintain its dividend at least through 2017, even if it continues to deliver weak results. But after that, earnings have to get better or else the dividend may go.

I think Corus can do it, and I'll continue to hold my shares, waiting for better results.

CATEGORY

1. Dividend Stocks
2. Investing

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Date
2025/08/28
Date Created
2016/11/01
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