



Income Investors: This 9.6% Yielder Has Paid 128 Consecutive Dividends

Description

Many dividend investors take one look at a stock yielding more than 5% and immediately decide against the investment.

The logic is simple. We've all been told that a stock that pays out more than 5% of its share price annually is at risk of cutting the dividend. If the dividend creeps up to 6%, 8%, or even higher, the chance of a dividend cut goes up with it.

But reality is much different. There are a number of factors that can push down the value of shares. Perhaps the industry is out of favour. The market could just be temporarily weak. Recent earnings might have stunk. Or the company could be dealing with a very fixable problem that has the market concerned.

No matter what the reason, investors have to take a closer look before they dismiss a company that pays such a high yield.

Take **Corus Entertainment Inc.** ([TSX:CJR.B](#)) as an example. Shares yield 9.6%, despite the company easily earning enough free cash flow to pay dividends. The company also has a history of raising the payout and has delivered 128 consecutive dividends to investors beginning in 2003.

Is Corus poised to pay 128 more consecutive dividends? I don't know. But it is poised to maintain its payout over the next few years at a minimum. Let's take a closer look.

A transformative acquisition

When **Shaw Communications Inc.** ([TSX:SJR.B](#))([NYSE:SJR](#)) announced it would be acquiring Wind Mobile in December 2015, the writing was on the wall. It would be selling assets to pay for the deal.

The announcement came just a month later. In January 2016, Shaw and Corus announced a \$2.65 billion deal for all of Shaw's media assets. The new combined company would own 45 specialty channels, 15 conventional channels, close to 40 radio stations, and nearly 35% market share.

It was a very big deal for Corus. The company raised the needed cash using a combination of new equity and debt. Most of the new shares went to Shaw, which agreed to delay taking dividends on more than 71 million shares until the end of Corus's fiscal 2017. Shaw will get additional shares rather than cash.

This all but assures the dividend will stick around for at least 2017. Corus will have additional cash flows without the burden of a higher cash dividend.

What about after 2017?

Things get a little trickier after 2017. Corus will have approximately 200 million shares outstanding. It has about 190 million outstanding today, and the Shaw stake will accumulate close to 10 million more shares in the meantime.

Corus pays an annual dividend of \$1.14 per share today, meaning it will be responsible for \$228 million in dividends annually in 2018 and beyond, assuming everyone takes their payout in cash and not in the form of extra shares. Remember, Corus offers investors a 2% bonus if they take their dividends in the form of shares.

The health of the dividend at that point comes down to what Corus can earn.

When the two companies announced the big acquisition, one of the big selling points was free cash flow generation. Combined, the two companies earned \$430 million in free cash flow in 2015. That's easily enough to cover a \$228 million dividend and interest on the new debt taken on to finance the big deal.

The problem? Corus hasn't been able to deliver the goods yet. Corus posted \$188 million in free cash flow in 2016, which is about the same as it delivered in 2015. But it had the Shaw assets contributing to the bottom line for about half that time. Free cash flow should have gone up. It didn't.

Investors have reason to be optimistic, however. There were a number of transaction-related costs. And newly combined Shaw and Corus advertising departments should translate into lower operating expenses.

The bottom line

The long-term future of Corus's dividend depends on its ability to generate free cash flow. I think the company will recover and post free cash flow approaching \$400 million in 2017. If it can deliver on that, investors should be able to collect the 9.6% yield for years to come.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SJR (Shaw Communications Inc.)
2. TSX:CJR.B (Corus Entertainment Inc.)

3. TSX:SJR.B (Shaw Communications)

PARTNER-FEEDS

1. Yahoo CA

Category

- 1. Dividend Stocks
- 2. Investing

Date

2025/08/28

Date Created

2016/11/22

Author

nelsonpsmith

default watermark

default watermark