



Torstar Corporation: If You Look Hard, You Can See a Bright Future

Description

Torstar Corporation ([TSX:TS.B](#)) reported its first-quarter results May 3 and, as expected, it lost \$24.4 million on \$138.7 million in revenue.

Not only did Torstar lose 30 cents per share in the quarter, but it also announced that it cut 110 jobs at the company including 25 closing its Durham, Ont., printing plant operated by Metroland Media, Torstar's community newspaper division.

These two sentences do little to convince investors that Torstar is on the mend, but if you look hard, I think you can see a bright future. Here's why.

Smaller loss

In the same quarter a year ago, Torstar lost \$53.5 million. The beleaguered media company cut its losses in Q1 2017 by more than half. Not only that, but the 110 job cuts will deliver \$5.3 million in annual savings, which will help reduce losses in future quarters.

Adjusted EBITDA

If you exclude share-based compensation, amortization, depreciation, and one-time charges, Torstar's three segments delivered \$2 million in adjusted EBITDA profit in Q1 2017 compared to a \$706,000 loss a year earlier. Add in the \$5.3 million in savings from the job cuts, and its cash flow situation improves dramatically.

Don't get me wrong. Torstar is still guilty of failing to make money based on generally accepted accounting practices, but taken in the context of where it's been and where it's going, this is progress, in my opinion.

Digital ventures

Did you know among its various non-Star Media Group and Metroland Media Group assets, Torstar had a minority interest in Nest Wealth, one of Canada's leading FinTech companies? I didn't. Torstar

invested \$1.5 million in Nest Wealth in August 2015.

Recently, I [highlighted](#) **National Bank of Canada's (TSX:NA)** \$6 million investment in the robo-advisor — a deal that includes the bank's advisors using Nest Wealth's excellent digital platform to manage their clients' money. Digital advice is one of the fastest-growing segments of wealth management; Torstar owning a piece of this could be a diamond in the rough.

Another digital investment that could pay dividends down the road is Torstar's 12% interest in Kanetix, one of Canada's leaders when it comes to finding cheaper insurance. If you live in Ontario, you know how crazy insurance rates have become.

Star Touch

Since Torstar launched its tablet app in September 2015, it's spent \$24 million on a product that's not capturing the attention of younger readers — the audience advertisers love to reach. Former CEO David Holland suggested in 2016 that Star Touch needs 100,000 unique readers using the app three to four times per week to break even.

Clearly, Torstar doesn't want to throw money down what appears to be a black hole. To that end, it plans to spend less than \$6 million on Star Touch for all of 2017 compared to \$10 million and \$14 million in 2016 and 2015, respectively.

Unless Torstar can figure out how to turn Star Touch into a mobile app, I expect Star Touch doesn't have much of a future.

New CEO

On the final day of the first quarter, Torstar appointed John Boynton CEO. Boynton has a strong background in the areas that Torstar needs to exploit if it wants to survive in a digital age. As Boynton remarked in his first quarterly conference call, Torstar has some good assets, but it's got to do a better job aligning them so they can profitably grow.

Bottom line

Some of the reports after its earnings release focused on the fact that earnings were worse than analysts expected. That might be accurate, but from where I sit, things don't look any worse today than they did when I last [wrote](#) about Torstar in March.

If you think Torstar has a chance but are frightened by its \$1.60 share price, you might want to invest in **Fairfax Financial Holdings Ltd. (TSX:FFH)** instead; it's one of Canada's best companies and owns [27.4%](#) of Torstar's class B shares.

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Date

2025/07/02

Date Created

2017/05/04

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