Should You Buy Corus Entertainment Inc. for the 8% Yield?

Description

Dividend investors are always searching for high-yield stocks to help boost their income.

Let’s take a look at **Corus Entertainment Inc.** (TSX:CJR.B) to see if it is an attractive pick right now.

Rebound

Corus had a tough run in 2015 as investors dumped the stock in anticipation of the 2016 rule changes on how Canadians order their TV services.

What happened?

In March 2016, new rules went into place that allowed Canadians to select their TV channels on a pick-and-pay basis.

The CRTC’s idea was to force the TV service providers to offer a basic package with mandatory channels and then let subscribers add the channels they want for added fees, rather than forcing them to pay huge monthly subscription costs for dozens of channels they never watched, but had to take as part of the traditional packages.

Why was Corus at risk?

Corus had a heavy focus on children’s programming that was rolled in as part of the old packages, so there was a concern it might take a big hit under the new rules.

As a result, the stock dropped from $25 in late 2014 to below $10 at the height of the pessimism, but the shares have since recovered some of the losses.

At the time of writing, Corus trades for $13.75 per share.

What triggered the 40% recovery?

To head off the problem, Corus bought Shaw Media from **Shaw Communications** to give it a broader content base to compete in the new world.

The deal closed shortly after the pick-and-pay rules went into effect, and one year later, it looks like Corus is holding its own.

The company reported net income of $66.7 million, or $0.33 per share, for the quarter ended May 31, 2017. Free cash flow came in at $82.5 million compared to $68 million in the same period last year.

Is the dividend safe?

The monthly payout is 9.5 cents per share, which provides an annualized yield of 8.3%.

Corus doesn't generate enough free cash flow to cover the full value of the dividends it declares, but the majority of the dividends are paid as new shares rather than as cash.

Over time, this isn't a great strategy, so investors have to be careful when evaluating the stock.

Should you buy?

The TV and radio business is a tough one these days, and while Corus is keeping its head above water, investors shouldn't expect the dividend to increase.

In fact, management might decide to trim the payout and allocate more funds to pay down debt.

The stock is probably fully valued at this point, so the only attraction would be the yield, and I'm not convinced the payout will survive at the current level.

As such, I would look for other opportunities.

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