Is Corus Entertainment Inc.’s 8% Yield Safe?

Description

Dividends are great because you are able to earn a regular stream of income just by buying a stock. But the problem is, sometimes the dividend can be too good to be true, with companies offering very high payouts that are not sustainable.

If a company is offering a yield in double digits, then something might be suspect, since investors would likely flock to a dividend that could offer those types of payouts. In most cases, you’ll find the high dividend to be unsustainable, but occasionally you may find a gem.

Corus Entertainment Inc. (TSX:CJR.B) currently pays a very attractive monthly dividend that yields over 8% annually. The dividend is certainly high and suggests that some analysis is needed to determine if it is safe.

Investors normally look at a company’s payout ratio to assess the health of the dividend. One common way to calculate this ratio is to look at the company’s total dividends per share as a percentage of earnings per share.

Payouts as a percentage of income

Currently, Corus pays out $0.095 every month, which totals $1.14 annually per share. The company’s earnings per share for the past 12 months have totaled just $0.61, meaning the company’s payout ratio is currently 186% of its earnings. Corus is paying out nearly double of what it is earning, and this ratio would suggest it might need a reduction.

However, earnings per share is a moving number, and looking at just the last 12 months could put things out of context. The last time Corus increased its dividend was early in 2015, and so the payout has been very consistent for the past few years.

The company's earnings have, unfortunately, lacked consistency. In fiscal 2016, the company posted earnings per share of $0.96, a loss in 2015, and earnings of 1.76 a share in 2014. Using theseearnings numbers, Corus's payout ratio would have been 119% in the last fiscal year, negative in2015, and 61% in 2014.

Using this approach, Corus has not seen a manageable payout ratio since its 2014 fiscal year.

Payouts as a percentage of free cash

Another way to look at payout ratio is to look at the statement of cash flow and calculate the dividends paid as a percentage of free cash flow. This can be a bit more useful since net income includes non-cash items that do not impact a company's cash and therefore its ability to pay dividends.

In the past 12 months, Corus has paid out just 43% of its free cash flow as dividends. For the full fiscal year of 2016, that ratio was 57%, but was down to 45% for 2015, and dropped to just 35% for 2014. Using the free cash flow approach, we can see that Corus has a much more manageable payout ratio than by looking just at net income totals.

Bottom line

Corus's dividend looks to be safe, especially when looking at the company's free cash flows. The company also has a stable future with a key shareholder like **Shaw Communications Inc**. involved. Corus presents a good long-term investment for any type of investor looking to collect on a high monthly dividend.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/22
Date Created
2017/08/17

Author
djagielski