3 Reasons Why You May See Corus Entertainment Inc. Cut its 8.9% Dividend This Morning

Description

Corus Entertainment Inc. (TSX:CJR.B) is one of Canada's leading media and content companies, owning and operating 45 specialty television services, including HGTV Canada and Oprah Winfrey's OWN network, 39 radio stations, including Toronto's Q107, and 15 conventional television stations, including Global Television and its affiliates.

The company has been under pressure in recent years, as the trend of cord cutting has led to declines in advertising revenues for its television businesses, which as of Q3, accounted for over 90% of company revenues.

In an effort to stop the bleeding, Corus acquired Shaw Media from **Shaw Communications Inc.**; the deal included the acquisition of specialty channels Lifetime Canada, the History Channel, and BBC Canada.

The move more than doubled the size of the newly combined company, and so far in 2017, it has delivered as well as management could have hoped for, with the acquisition delivering 65% sales growth over the first nine months of the year.

Those sales are as important as ever, given the pressures facing the television and radio industry and declining margins.

Yet it may not be enough for Corus to stave off a dividend cut when it reports earnings before the market opens this morning.

The television and radio businesses are in decline

On the surface, sales are up 65% during the first nine months of the year, but a deeper dive behind the numbers paints a different picture.

After backing out the Shaw Media acquisition, revenues in the company's television business are down 2% so far in 2017.

And while revenues in the TV business showed a 3% bump in Q3 the radio business, which makes up the other 10% of revenues, radio is down 4% during the first nine months of the current fiscal year.

The company needs to retire debt accumulated from the Shaw Media acquisition

Following the Shaw acquisition, segment profit is up 54%, yet despite that, earnings per share are down 30% during the first nine months of 2017 compared to the year-ago period.

Part of that decline is attributable to a higher share count as a result of the Shaw acquisition, but on top of that, interest expenses are on pace to be $63 million higher this year than prior to the acquisition.

In the face of declining sales and margins, Corus needs to make debt reduction the number one priority for any free cash flow the firm is able to generate.

Naturally, however, this will come at the expense of shareholders.

As the company uses available cash to retire outstanding debt obligations, it will have less cash remaining to fulfill dividend obligations, which currently sit at $230 million annually and are starting to look more unsustainable as time rolls forward.

It looks like the market is already anticipating a dividend cut

Corus shares currently trade with a dividend yield of 8.9%, which is extremely high for a company of its nature.

A dividend yield this high — with a company facing declining sales and the need to retire debt — normally suggests the market is already anticipating, or "pricing in," a dividend cut.

That means that if Corus does indeed cut or even eliminate its payout when the company announces year-end results this week, shares may not fall by as much as they would otherwise.

But for those investors who are currently holding CJR.B shares for their yield, it may be time to start looking elsewhere.

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