This Dividend Stock Is at a 52-Week Low and Paying More Than 11%: Time to Buy?

Description

When dividend stocks decline, it presents an opportunity to secure a high yield, as long as payouts haven't been reduced. The key is determining what is behind the drop in price and whether the stock can recover. After all, if all you end up doing is applying your dividend income to offset the stock's losses, then you're no better off for investing.

On Wednesday, **Corus Entertainment Inc.** (TSX:CJR.B) released its first-quarter results for 2018, which fell short of expectations, as the company performed worse than in Q4. Revenue was down over 2% from last year, and adjusted per-share earnings of $0.38 were also down from $0.41 a year ago.

As a result of the poor results, the stock was down ~10% in trading on Wednesday morning, which sent its dividend yield up to well over 11%. The company already had a very high dividend to begin with, and now that the share price has dropped 24% in the past three months, it is even higher.

Investors are going to likely be concerned about two things: if the dividend is still safe, and if the stock will recover.

Why the dividend is in no imminent danger

Ultimately, the company's net income is down over $6 million from the prior year. It's a disappointment, but it's not a reason to panic. Free cash flow actually saw a big improvement from just $34 million a year ago to over $83 million this quarter.

Free cash is more important in determining a company's ability to pay cash dividends, since it represents the funds that the company has available after capital expenditures, and what is "free" to either pay in dividends or simply retain for other purposes.

If Corus had rising profits but a decline in free cash, that would be more concerning than the current situation, at least for dividend investors.

Will the stock rebound?

The company's president and CEO Doug Murphy stated that "Weak television advertising market conditions" were to blame for Corus's disappointing top line. A big reason for these weak markets is the popularity of online-content producers like **Netflix, Inc.** and other options, like YouTube, where consumers can consume entertainment online.

However, he went on to say, "We remain committed to advancing our strategic priorities as Canada's only pure play media and content company." The problem that I see here is that Corus has yet to go head to head in the world of online streaming, as the vast majority of its content can only be viewed with a traditional cable subscription.

However, a big reason for that is likely because **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) is a big shareholder of the company and wouldn't want those changes impacting its bottom line.

Corus is going to be forced to make a big decision: is it going to continue to fight a losing battle, or will it make its content available online in the form of Sling TV, a product made available by **Dish Network Corp.**, to get back some cord cutters that didn't want to be saddled with the headaches of a conventional cable subscription?

Until Corus makes the leap into online streaming and offers new ways for advertisers to reach customers, the share price is going to continue to struggle.

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