Corus Entertainment Inc. Plunges 28% Since the Beginning of the Year

Description

Corus Entertainment Inc. (TSX:CJR.B) continues to plunge; the company is down 28% since the beginning of the year and counting.

With a 2.3% reduction in revenue and a 7.3% reduction in EBITDA in the latest quarter, it's clear that Corus is struggling.

A weak advertising market has taken its toll on the company, and this weakness has been more pronounced than expected.

One big positive for the company, however, is its extremely healthy free cash flow generation. In the latest quarter, free cash flow was $150 million, up from $100 million in the same quarter last year and easily covering the company's dividend payment.

As it stands, the dividend yield is more than 13% and the company is in a position to maintain it. That said, it's probably a good idea to reduce the dividend, as strategic investments should be considered in order to proactively combat the vastly changing environment that the company finds itself in now and in the future.

Going forward, the environment is unclear, with a lack of visibility ruling the day. Advertising revenue, subscriber growth, the radio channel performance, revenue growth from content licensing, merchandising, and distribution are all at risk.

It is certainly a very cheap stock at this point, however, with excellent cash flow generation to back it up, and so this may be a great time to add to positions for the long term.

As an alternative, I would also consider another entertainment stock, **Cineplex Inc.** (TSX:CGX). Cineplex is another down-and-out stock that's reeling from the changes in the entertainment landscape — and the changes Cineplex has been forced to make in response.

Accordingly, the stock has not performed well either in the past year, declining 37%, or since January, when it declined 13%.

But Cineplex has a monopoly in the movie theatre business, a successful online video rental and purchase site, Cineplex Store, and other businesses that have served to diversify the company's revenue and earnings.

The Other category now accounts for 27% of total revenue.

Despite the fact that spending has been ramped up in recent years due to the expansion of the gaming/rec room business, revenue and earnings will get a bump up as this business scales.

Early indications are good, with rec room revenue increasing to $4.3 million from $200,000 last year and amusement excluding rec room revenue increasing 67%.

To cap it off, the stock currently has a 5.1% dividend yield; while the company is currently issuing debt in order to finance the dividend, the stock price may already be discounting a dividend cut, so bad news may be priced in.

And so we are left with another value stock in the entertainment business.

CATEGORY

1. Dividend Stocks
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2. TSX:CJR.B (Corus Entertainment Inc.)

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Date
2025/07/07
Date Created
2018/01/16
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