Corus Entertainment Inc.: Do You Dare Go Near This 14% Yield?

Description

Management at **Corus Entertainment Inc.** (TSX:CJR.B) spun the company's first-quarter results in the most positive light, trying to reassure investors that its 14% dividend yield was still safe.

The company was quick to point to free cash flow of $83.2 million for the quarter, up from $33.9 million a year ago, as evidence that it still has the financial flexibility to maintain its 118% payout and, on top of that, pay down its already large debt balance that currently sits at greater than $2 billion.

default watermark

Media is a challenging environment today

It's a fight that has been going on for some time now at Corus — trying to quell the investment community's fears about the future of its television and radio businesses.

Part of the battle for Corus in recent years has been trying to stave off declines in advertising revenues, as millennials and younger households continue to adopt a "cord-cutting" philosophy and a shift in consuming their entertainment through online avenues like **Netflix, Inc.** (NASDAQ:NFLX) and apps like Spotify, which is currently preparing its own initial public offering (IPO).

Some might say that the cliché "desperate times call for desperate measures" applies to Corus's 2016 acquisition of Shaw Media for $2.65 billion.

While the deal did help offset declines in the company's core business, it also saw the shareholder's take on an additional $1.4 billion in debt and their ownership significantly diluted.

And because of that dilution, the company's dividend obligations are only becoming more burdensome to deal with.

Corus's dividend payments have increased from $76 million prior to the Shaw deal to just shy of $200 million today after it issued an additional 110 million shares between 2015 and 2016.

First-quarter results were a tough pill to swallow

Now with the Shaw Media acquisition one year removed, when Corus Entertainment reported its first-quarter results, it was difficult not to notice that the company's core business resumed its decline.

Overall, revenues were down 2% in the quarter, largely driven by declines in the company's television business, which includes the Shaw Media assets acquired in 2016.

And while radio used to be an integral part of Corus operations, in Q1 radio accounted for less than 10% of the company's profits and sales.

Keep fighting the good fight

But give them credit; management and the board of directors at Corus aren't going down without a fight.

For 2018, the plan is to pay down some of the debt that was acquired from the Shaw Media purchase, but looking ahead past the current year, Corus has plans to continue its accumulation of content assets.

It will be interesting to see if this strategy will include discussions with **DHX MEDIA COM VTG ORD** (TSX:DHX.B)(NASDAQ:DHXM), which announced in 2017 it was looking for a strategic partner.

Bottom line

There's no question that Corus faces challenges as things "shake out" in the traditional media landscape.

default watermark

But at the same time, there's also no one suggesting that content is going the way of the dinosaur; in fact, many are suggesting just the opposite — that the outlook for content assets has never been more "rich."

Corus's strategy to be aggressive in acquiring content today may pay dividends — theoretically speaking — for the company in future years, but the safety of the company's current dividend remains another story altogether.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:NFLX (Netflix, Inc.)
2. TSX:CJR.B (Corus Entertainment Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise

4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Tech Stocks

Date
2025/08/26
Date Created
2018/03/07
Author
jphillips

default watermark

default watermark