



Is Corus Entertainment Inc.'s 16% Yield Too Good to Be True?

Description

Corus Entertainment Inc. ([TSX:CJR.B](#)) is one of the most intriguing stocks on the TSX this year. With the share price in free fall since the company's [disappointing earnings](#) earlier this year, the stock has hit a new all-time low, and it is now struggling to stay above \$7.

Corus had a big yield before this crash, and with dividends paying \$1.14 per share, the payout is now just under 16% of the stock price. Under normal circumstances, investors would be saying this is an unsustainable dividend, and that it is due for a cut, but that might not be the case with Corus.

We aren't through even a quarter of the year yet, and Corus has seen its share price drop nearly 40%. While I understand the pessimism and concern from investors about the industry and the growth in online streaming, this reeks of a gross market overreaction.

Online threats are nothing new to the industry

Netflix, Inc. ([NASDAQ:NFLX](#)) has been around for years, and yet it seems as though investors have suddenly started to panic that a poor quarter from Corus means that advertisers will be moving away from cable and into online content. I'm skeptical about this. [I tried cord cutting](#) for a while, and frankly I wasn't convinced that it was a long-term threat.

Corus still has a lot of potential

Online streaming options in Canada are still very limited, and with Corus owning some big-name channels like HGTV, Disney Canada, and National Geographic, it still holds a lot of the cards. Content is ultimately what matters, and Corus owns some very attractive assets.

The dividend is not as bad as it looks

If you just look at the dividend yield, you might have alarm bells going off. However, it's a bit more complicated than just saying that because a yield is a certain percentage, it is a big risk of being cut. Ultimately, it comes down to how well the company is able to make its dividend payments while also taking into account the present situation, which will dictate if an adjustment needs to be made.

In the case of Corus, I don't see where all this concern is coming from. Not only does Corus have strong assets and a lot of avenues to grow, it also has a lot of free cash. In the trailing 12 months, the company's dividends made up just 39% of its free cash flow. Corus is also on pace for a second straight year where cash flow is likely to rise.

Bottom line

Corus is a bargain buy with its share price coming off a new all-time low, and the stock trading at just 60% of its book value. Although it may take a while for the stock to find some momentum, there are many reasons to expect that the share price will recover from these depths. The company simply isn't doing this bad for the stock to be this low.

It's a great dividend stock to buy now, and while the yield may be high, it could quickly shrink once the share price is able to finally generate some traction.

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

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Author

djagielski

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