



Corus Entertainment Inc.: Good, but Not Great

Description

Corus Entertainment Inc. ([TSX:CJR.B](#)) released its much anticipated second quarter earnings. Corus has been a [hot topic of conversation](#), with its dividend yield rising to 20% as its share price has tumbled.

First let's take a look at the good news. The company handily beat expectations, posting quarterly adjusted earnings per share of \$0.20 versus estimates of \$0.14 per share. Revenues came in above expectations at \$368.2 million versus estimates of \$364.7 million.

Most important, the company is delivering on the synergies of its Shaw Media acquisition from 2016. Its earnings beat was primarily on the back of further cost cuts of 3.3% and gains in its TV merchandising and distribution segment.

Unfortunately, it wasn't all positive; the company is simply not growing. Year-over-year, the company's revenues decreased by 1%, and despite a beat on the top line, it only managed a small 0.3% increase over the second quarter of last year. I firmly believe that this is what's holding the company back. It's operating in an industry that's under attack by streaming companies and customers are cutting the cord at a record pace.

All of the above is great information, but what investors really want to know is this: [what about that dividend](#)? Although it isn't out of the woods yet, its situation is slightly improving. Its payout ratio as a percentage of earnings has dropped to 99% from 117%.

Free cash flow jumped to \$165.3 million year-to-date (YTD) as compared to \$129.9 million in the prior YTD. This is where it gets tricky. In order to properly analyze the dividends as a percentage of cash flow, we can only use numbers from the first six months of the year. Prior to a dividend lockup period in August 2017, Shaw Media shareholders had to receive their dividends in shares. As a result, nothing prior to this date is not comparable. In the first six months of fiscal 2018, the company paid 99.367 million in dividends, or approximately 60% of FCF as compared to a 40% payout ratio in the prior year. The additional payments to Shaw Media shareholders post-lockup period has resulted in dividends eating up a greater percentage of cash flow.

Corus is a hold

Along with earnings, the company announced that it intends to maintain its monthly dividend over the next three months. This is good news for shareholders over the short term. However, the company still hasn't shown enough growth to warrant a higher valuation. The company is stuck and a high yield isn't a good use of resources over the long term. Corus has always maintained that it was not going to make changes to the dividend in fiscal 2018. Management has stayed true to their word, but uncertainty remains. Although I admire the company's commitment to maintaining its dividend, a cut in 2019 would be a prudent approach.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CJR.B (Corus Entertainment Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/23

Date Created

2018/04/05

Author

mlitalien

default watermark