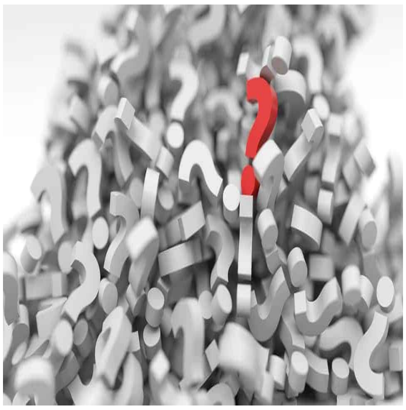

Should Investors Expect Corus Entertainment Inc. to Cut its Dividend?

Description

Corus Entertainment Inc. (TSX:CJR.B) just can't seem to get out this free fall. Early in 2018, the company reported disappointing earnings which sent investors into a panic, and a massive sell-off of the stock ensued. Year to date, the share price has nearly been cut in half. Even an improved Q2 was only good enough to give the stock a break from its descent, but it wasn't able to provide the share price any momentum beyond that.

As a result of this brutal start to the year, and with Corus is still paying investors $0.095 every month per share, its dividend yield has rocketed up to over 17%. Normally, investors would start getting concerned about dividend stocks that are paying more than 5%. Meanwhile, a 10% yield would be very concerning, and so Corus's payout likely has alarm bells going off everywhere.

Is the dividend in danger of being cut?

While certainly few would blame Corus for cutting its astronomical dividend, since even after a big cut, it could still be providing investors with a strong yield, we still haven't seen the company do so. Just because the dividend is high doesn't mean it's unsustainable. Investors should consider the payout ratio, as well as the prospects for the company in the years to come.

A good place to start is the company's earnings. In the past 12 months, Corus has generated earnings per share of $1.04. Unfortunately, with annual dividends per share totaling $1.14, the company is paying out 110% of its earnings. However, the problem with using earnings to calculate payout ratio is that accounting income includes non-cash items like amortization and other expenses that don't have an impact on a company's cash flow and its ability to pay cash dividends.

Another way to look at payout ratio is by using free cash flow. Over the past year, Corus has accumulated $320 million in free cash, and with only $153 million being paid out in the form of dividends in the last 12 months, Corus has paid out less than half of its free cash. By this calculation, we see a much less dire position than if we were to solely rely on net income to do this analysis.

The company's outlook

While the company may not need to cut its dividend today, the bigger question is, what will happen in the future? Corus is certainly struggling to grow revenues today, but there is reason for optimism. After all, with a portfolio of great content, Corus holds a lot of the cards. If it were to start offering more of its content online, it could reach a broader market and attract advertisers that prefer to market their products online rather than through cable TV.

Hope shouldn’t be lost for Corus just yet, as the company still has strong fundamentals, and it has posted a profit in each of the past five quarters. The sell-off has been overdone, and investors that are not afraid to take on some risk could be rewarded with significant returns in the long run. At about half of its book value, Corus stock is a bargain.

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Date
2025/08/23
Date Created
2018/05/25
Author
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