2 Dividend Dogs 1 Buy

Description

Corus Entertainment Inc. (TSX:CJR.B) and Hydro One Ltd. (TSX:H) are two dividend dogs that can't seem to catch a break. One is a value trap, and the other is a compelling long-term value play.

Let's take a closer look at which one's which.

Corus

Corus shares fell over ~50% from its 2014 peak, only to fall another 50% as the cord-cutting trends wreaked havoc on the business, which appeared to have no meaningful catalysts to propel the stock out of its funk.

At the time of writing, the stock is down over ~75% from its high, and although the ~19% dividend yield may be a compelling siren song to aggressive income investors, after the recent asset sale blockage, it looks like Corus is finally going to get its dividend cut after years of keeping it intact in spite of tough times.

Although Corus shares were attractively valued on a price-to-free cash flow basis, the secularly declining industry and a lack of answers from management were enough reason to avoid trying to catch a bottom in the stock. The company is between a rock and a hard place right now, and although I originally expected a dividend cut to be in the cards for 2019, the recent blocking of Corus' French-language specialty asset sale will probably cause the dividend to be cut sooner rather than later.

It certainly appears that more pain is ahead, and with no meaningful catalyst on the horizon, so unless you've got mad money to speculate with, I'd continue to avoid the shares, at least until management sheds light on a turnaround plan.

Hydro One

Shares of Hydro One dropped ~27% from peak to trough, and although the stock appears to beanother falling knife like Corus, there are many reasons to believe that Hydro One remains a soundvalue bet play with limited downside at these levels.

Hydro One essentially has a monopoly over transmission lines in Ontario. Although a monopoly is desirable for an investor, it's really been a double-edged sword for Hydro One as regulatory roadblocks have essentially diminished the pricing power that comes with any monopoly.

This means that forward-looking growth within the confines of Ontario stands to be dampened, but the fact remains that the company has one of the safest dividends out there (currently yielding 4.7%). The Avista acquisition may reignite lost growth over the longer-term, but near-term accreditation is underwhelming to say the least, with management expecting Avista to be $0.00-$0.01 accretive to its earnings in the first year of operations.

Hydro One's latest quarter was nothing to write home about, but income investors had something to be optimistic about, as the company upped its quarterly dividend by 5% to $0.23 per share. Moving forward, management may seek to boost growth through tuck-in acquisitions that complement its newfound Arista assets.

Bottom line

Both Corus and Hydro One have been gut-punched by regulators of late. Although it may seem wise to shun both stocks at these levels, I do think that Hydro One is better positioned to rise out from its funk, as Avista appears to be a nice outlet that may gradually begin to offset stunted growth from the company's overexposure to a single regulatory jurisdiction.

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