Could Corus Entertainment Inc. (TSX:CJR.B) Rebound in June?

Description

Canadian media giant **Corus Entertainment Inc.** (TSX:CJR.B) is expected to report its fiscal Q3 2018 results in June, and the investing community may finally get a policy update on a critical valuation metrics from management.

I'm talking about the much-anticipated update on Corus's dividend policy for its fiscal year 2019, which begins in September.

Corus management has promised to continue to pay the company's annual dividend of $1.14 for Class B shares through the end of fiscal 2018, which now yields a staggering 18.69% at the current heavily depressed stock price.

The company has suffered a share price plunge over the past few years, losing as much as 44% year to date this year, as investor pessimism on the company's prospects has continued to rise, while its major revenue driver, television advertising, has continued to soften.

As revenue diversification and the implemented cost-cutting measures show improving bottom-line performance, the need to further reduce total debt levels has attracted investors' eagle-eye attention, as Corus is not on target to meet its deleveraging target of three times net debt to segment profit by August this year.

It is imperative that the company reduces its total debt levels, as it battles a mature and probably declining market that's facing fierce challenges from technological evolution that is driving advertising dollars out of the traditional radio and television ecosystem.

To this end, a dividend cut announcement could be the best news that forward-looking contrarian investors are looking for, as this will free up much-needed cash flows to quickly pay up bigger portions of long-term debt and prop up Corus's balance sheet.

There has been so much market interest on the company's dividend of late, and it seems to be the market's consensus that the payout needs to be reduced. Should this happen, it's highly likely that investors may find favour with Corus's stock once again, and the deep discount to book value, which now stands at 49%, could be reduced but not necessarily disappear.

During the most recent quarterly results conference call, the company's CEO promised to address the details of Corus's post-fiscal 2018 dividend during the Q3 results in June, and **Barclays** analysts suggested a 50% dividend cut to enable the company to better service its nearly $2 billion long-term debt outstanding to give Corus some financial flexibility, while it implements its revenue-diversification programs.

Could the stock rebound?

A lot will depend on the cost-management progress and revenue trend outlook.

Last quarter's positive earnings surprise was mainly driven by some unsustainable developments, including lower stock compensation costs (due to depressed stock price) and lower programming costs (some of which may have moved forward to the third quarter).

Revenue-diversification efforts are producing some traction to arrest segment revenue declines from softer television advertising sales, and efforts are being made to allow advertising space buyers to better target their audiences.

As a result, revenue performance may be stable for the quarter, but I'm not very confident about cost-containment progress yet, but another earnings beat is possible, which will be good for the stock price.

Investor takeaway

Investors in Corus Entertainment stock are already expecting the dividend cut, so there may be little valuation impact, as the action might have been already priced in to the current price. That said, a dividend cut could even be the best news the market is looking for, as the resultant financial flexibility will allow the company to strengthen its balance sheet and redeploy capital on profitability-enhancement programs, new growth projects, and revenue-diversification projects.

Unfortunately, the planned sale of French-language specialty channels Historia and Séries+ to Bell Media Inc. has hit a fatal glitch after the Commissioner of Competition blocked the transaction, and the parties agreed to abandon the transaction in a May 30th announcement. The deal could have helped Corus's strategic refocusing efforts. This hiccup aside, there is hope in Corus Entertainment stock, and the resultant dividend could still be attractive even if cut in half!

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