Should Corus Entertainment Inc. (TSX:CJR.B) Investors Brace Themselves for a Dividend Cut This Year?

Description

Corus Entertainment Inc. (TSX:CJR.B) stock has not been kind to contrarian investors who have attempted to catch it on the way down. At the time of writing, the stock is down over 75% from its 2014 high, where the stock consolidated right before falling off a massive cliff.

Shares of Corus plunged 60% before its dead-cat bounce which burned many deep-value investors hoping to lock in an artificially high yield along with a sharp rebound. That wasn't at all that happened, though, as shares continued to free fall further into the abyss, shedding another ~55% from July 2017 to June 2018.

What's the fate of the massive ~17.6%-yielding dividend?

Despite plunging over 75% from its high, Corus's management team has still yet to trim the dividend, whose yield has swollen to an astounding 17.6%. I've noted in the past that the shareholder-friendly management team would only look at cutting its dividend if worse came to worse. With Corus's recent asset sale being blocked by the Competition Bureau though, I think Corus may find it best to finally cut (or substantially reduce) its dividend in spite of its improved cash flow generation.

Corus has a hefty amount of debt on its balance sheet. The two French specialty channels, Historia and Series+, were supposed to raise approximately $200 million to alleviate the some of the financial pressure; however, since the deal is clearly not going to happen, Corus is going to need an alternative course of action; naturally, it's likely going to be in the form of a hefty dividend reduction.

Queue the dividend reduction

If Corus were to announce a dividend cut (or reduction), I think the general public will breathe a sigh of relief, especially since most investors in the stock are aggressive contrarians looking to bottom-fish, not income investors who are in it for the yield. Most, if not all, income-oriented investors have jumped ship already, so if Corus announces a dividend cut in its next quarterly earnings report, I think Corus shares actually stand to rally, as management sheds light on how it's planning to get the ship turned back in the right direction.

For now, one can only expect that debt reduction will remain the top priority, as $245 million is expected to be paid back in 2019. After that, I believe content creation will be a key area of investment that may bring about some relief to shares.

In this era, content remains king. Advertising revenues are expected to continue to be on the decline on a year-over-year basis, and with no hit “must-see” programs in the cards, it’s going to be tough to reverse the trend, as Canadians continue to cut the cord in favour of cheaper premium content available on various video streaming platforms.

Bottom line

At the time of writing, Corus shares trade at a 0.5 P/B, a 0.8 P/S and a 3.8 P/CF, all of which are substantially lower than the company’s five-year historical average multiples of 1.3, 1.9, and 7.8, respectively.

The stock is ridiculously cheap, especially on a P/FCF basis; however, I’d recommend investors sit on the sidelines while they wait for more promising commentary from management with regards to a turnaround. Corus is definitely a stock I’d rather buy on the way up (assuming a sound turnaround strategy is announced), not on the way down.

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Date
2025/08/27
Date Created
2018/06/08
Author
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