Is it Worth Betting on This Attractive Dividend Stock?

Description

Buying a high-yielding dividend stock means you're betting on something that investors doubt is a good investment.

Any dividend yield in the double-digit area is a sign of extreme danger, and the majority of investors believe that a cut in such a payout is imminent. The most recent example that fits in this category is **Corus Entertainment Inc.** (TSX:CJR.B).

Let's find out why this dividend stock is not a good bet for income investors, despite its dividend yield, which is touching 18%.

Business challenges

Corus, which owns 15 conventional TV channels, 44 specialty networks, including the Food Network and HGTV, and 39 radio stations in Canada, is struggling to attract viewership and advertisers. This is happening at a time when video-streaming services, such as **Netflix**, are becoming a major challenge for traditional media companies and depriving them of their ad revenues.

Amid this extremely difficult operating environment, some newspaper reports suggest that Corus's major shareholder **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) has hired TD Securities to find a buyer for its 38% stake in the company, which is worth approximately $540 million.

A report in *The Globe and Mail* says Shaw is considering a list of dozens of potential buyers, with a focus on private equity funds and other deep-pocketed investors that don't currently own a national media business in Canada.

Analysts, however, doubt that such efforts will bear fruit due to regulatory challenges and foreign ownership restrictions that prevent any non-Canadian buyers from obtaining a path to control.

In this complex situation, it’s highly likely that the company will cut its dividend when it announces its quarterly earnings report later this month. Corus may decide to slash its $1.14 annual dividend by more than half to save on its annual +$110 million dividend bill.

That reduction may send a positive signal to potential buyers and help the company manage its $ 2 billion debt on its balance sheet.

The bottom line

Trading at $6.42, Corus stock has lost half of its value during the past one year. I don’t think buying at a time when Shaw is finding a buyer for its majority stake is not a good idea. That said, Corus’s management is also trying to restructure its business to find a way to survive in this environment, making its stock an interesting case for contrarian investors. Staying on the sidelines, however, is the best strategy for risk-averse investors.

CATEGORY

1. Dividend Stocks
2. Investing

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