Corus Entertainment Inc. (TSX:CJR.B) Records Big Q3 Loss and Slashes its Dividend

Description

Corus Entertainment Inc. (TSX:CJR.B) released its third-quarter results on Wednesday. Sales of $441 million for the period were down over 4% from the $461 million that Corus booked to its top line this time last year. The company also incurred a loss of $929 million, compared to a profit of $76 million in the prior year.

At first glance, the numbers look very concerning, but let's take a closer look at the results to get better idea of just how Corus did this past quarter.

Impairment charges put a big dent in the company's results

A loss of near $1 billion will spook many investors, but a look at the financials shows us a clear culprit behind the results, which is the impairment costs. In Q3, Corus recognized an impairment of goodwill on its broadcast license of a little more than $1 billion.

Although it is concerning to have this much of a write-down, ultimately this is an accounting number that doesn't impact the company's cash flow, nor does it suggest that Corus' long-term future is in trouble.

Without the impairment costs in Q3, pre-tax earnings would have totaled $111 million, which would've represented an increase of 8% from a year ago.

For me, the net loss is not nearly as concerning as the drop in sales.

Television sales down

Corus recorded just under $403 million in sales this quarter, which is down 4.6% from the $422 million that the company posted a year ago. Its radio segment saw a much more modest year-over-year decline of just over 2%.

In the release, the company once again noted the "challenging television market conditions" that it faces, suggesting that tough times may still be ahead for Corus.

Cash flow remains strong

At the end of the day, cash is what matters, and Corus is still doing a good job of generating plenty of it. Cash from operations was up from the previous year, as was free cash flow.

Dividend cut

Investors have long speculated that Corus' high yield was in danger of being cut, not because the company couldn't afford to keep paying it, but because it had room to do so and it would make its financials much stronger in the process.

In a separate release on Wednesday, Corus announced its dividend payment would be just $0.24 per year and would move from monthly to quarterly payments. This is a big drop from the $1.14 the company was paying annually per share, and under the new rate, investors would be earning less than 4% per year. However, if we see a big sell-off like we did after the company's disappointing Q1 results, the dividend yield could quickly rise.

The company said that the main objective of this move is to bring down its debt, which currently sits at $1.9 billion and is more than the $1.6 billion the company has in equity.

Bottom line

There wasn't a whole lot of good news in Corus' financials this quarter, but a much smaller dividend might encourage some investors that this will improve the company's long-term outlook. While dividend income is great to have, capital appreciation can often produce much more significant returns over the long term.

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