Corus Entertainment Inc. (TSX:CJR.B): We Warned You

Description

Yesterday, **Corus Entertainment Inc.** (TSX:CJR.B) released mixed third-quarter results.

The company posted a massive loss of $4.49 per share. Don't panic. The loss was negatively impacted by a one-time goodwill charge of $1.013 billion. The company actually beat earnings estimates when stripping out one-time items. Cash flows were also a bright spot, rising to $87.8 million for the quarter, up from $82.5 million a year ago.

If these numbers were so good, why did Corus's stock drop almost 18% yesterday?

Two reasons: declining sales and its massive dividend cut.

Declining revenues

Stripping out the impact to revenues from its Shaw Acquisition, Corus's revenues have been on a downward trend. In three of the past four quarters, revenues have dropped in comparison to the year prior.

In the third quarter of 2018, revenues dropped 4.4% year over year. This is not good news.

It's no secret; there is a significant shift towards digital and streaming services. As such, Corus is faced with many of the same challenges as its peers. It needs to adapt, and to do so, Corus must reinvest in the company.

This brings me to the dividend.

Dividend cut

Last week, I'd warned investors that a dividend cut was imminent. The Street expected a 50% cut, while I took it a step further and suggested Corus needed to trim dividends by 70% to get to a more reasonable yield.

Corus certainly did not disappoint, as it slashed the dividend by 79%!

Not only did it cut the dividend, but it also changed the payout frequency from monthly to quarterly. Effective September 1, the company's new quarterly dividend will be $0.06 per share. Based on today's prices, that is a 4.68% yield, which is still attractive.

Good news

Believe it or not, this is good news for the company. I've said it many times, but a 17% yield was not sustainable, nor was it good business practice.

Corus is now well positioned to tackle its debt load.

Year to date, the company has generated $253 million in free cash flow (FCF). Based on its new capital-allocation policy, dividends will account for approximately 14% of cash flows. As a result, a large portion of its FCF can now be diverted into paying down its $2 billion in long-term debt.

Corus's current net debt is sitting at 3.38 times segment profit. Its goal? To reduce leverage below three times. That's highly achievable within the next year.

The other positive? Corus can divert earnings back into the company. If Corus is to return to growth, it needs to invest back into its segments. Previously, its payout ratio was so high that the only way to do this was through additional debt or equity issue. Why? Because it was paying all its earnings out to shareholders in dividends.

Although there is still significant risk, the company is much more attractive today than it was prior to earnings. The dividend cut was needed, and Corus can now turn its focus back to growing the company.

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