Corus Entertainment Inc. Is Channeling Google and Facebook Inc.'s (NASDAQ:FB) Model of Targeted Ads: Time to Buy?

Description

Editor's Note*: Corus' dividend policy explanation as been updated to reflect "$0.06 per share per month" and "$0.095 per share per quarter." (8/15/2018)*

Corus Entertainment Inc. (TSX:CJR.B) nosedived 18% in a single trading session following the release of yet another underwhelming quarterly report, which caused shares to touch a new all-time low. Although the quarter appears like a disaster on the surface, it may be a compelling time to bottom-fish now that management has had the opportunity to shed more light on its turnaround plan, as Corus moves towards targeted ads.

Weak third-quarter results were nothing to write home about

The company clocked in a net loss of $4.49 per share for fiscal Q3, down from a $0.33-per-share profit during the same period last year. Total revenue fell 4.4% year over year to $441.4 million, falling short of analyst expectations of $452.4 million. Revenue from the television business dropped 5% with advertising taking a 4.4% dip.

To add even more salt to the wound, management finally reduced its dividend to $0.06 per common share per *quarter* from $0.094 per common share per *month*, which will be paid out in December. Although the management team wanted to keep the dividend static, as I noted in a previous piece, the company was between a rock and a hard place following one of its proposed asset sales was blocked by regulatory authorities.

"Corus has a hefty amount of debt on its balance sheet. The two French specialty channels, Historia and Series+, were supposed to raised approximately $200 million to alleviate some of the financial pressures; 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." I wrote earlier this month. "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."

Corus looking to Facebook and Google to give ad revenues a boost

Corus's CEO Doug Murphy noted the plan to steer away from the old-fashioned TV advertising model, instead opting to go with "targeted ads" like **Facebook Inc.** (NASDAQ:FB) and **Alphabet Inc.** (NASDAQ:GOOG)(NASDAQ:GOOGL) to give its advertising segment a much-needed jolt.

Murphy emphasized Corus's use of innovative technologies, including the use of Artificial Intelligence (AI), which will serve to alleviate some of the pressures faced by the declining TV advertising model.

"By profiling audience segments and the shows they love, TV can offer more targeted campaigns to our advertisers. This is fundamental to the future of television," said Murphy in a conference call.

Great; soon your set-top box will be sending tonnes of your personal TV viewing data to Corus servers, where AI will be able to process the data to target you with annoying ads. Hopefully, they won't sell your data to third-party firms in the same way Facebook did!

In any case, it appears that Corus is heading in the right direction by choosing to leverage technology to increase the value of what it's selling to consumers: ads.

This embracing of cutting-edge tech won't reverse the trend of cord cutting, however, especially with the continued strengthening of video streamers, which are getting better and better. As such, I can't say I'm buying Corus's new plan and would encourage investors to continue avoiding the stock.

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Date
2025/08/26
Date Created
2018/06/29
Author
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