Did You Really Buy Corus Entertainment Inc. (TSX:CJR.B) for the Dividend?

Description

The fact that **Corus Entertainment Inc.** (TSX:CJR.B) cut its dividend June 27 by almost a loonie shouldn't come as a surprise to any investors in its stock.

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Fool contributors Matt Litalien and Joey Frenette both alluded to the potential for a dividend cut in articles they wrote in June prior to the recent announcement, and most analysts were already calling for a reduction in its annual payout.

I'm not sure anyone could have predicted an 80% cut, but in hindsight, Corus's business did look awfully troubled, providing plenty of warning signs.

A 13% yield

In mid-January, I'd warned investors that owning any stock yielding 13% was a bad idea; Corus wasn't any different.

The fact is, Corus has too much debt, which wouldn't be the end of the world if it wasn't operating in an industry that's definitely not firing on all cylinders. Revenues are down, EBITDA earnings aren't great, and it has plenty of one-time impairment charges, making it difficult to accurately assess the true damage to its business model.

Anyone who is a dividend investor should have known that Corus wasn't worthy of consideration, because it hasn't increased its dividend in over three years. Sure, some companies have a capital-allocation policy that pays a fixed dividend that never changes regardless of economic success, but that's not the case with Corus.

Corus was using this fabulous dividend yield to attract new investors and pacify existing shareholders, while it worked on turning around its business.

I like to think of it as a bribe, but any way you slice it, the dividend should have been ditched ages ago. According to the *Globe and Mail*, Corus will save $150 million annually with the 80% cut, which will go to reducing its debt.

It's about time. Frankly, I have no idea why it didn't suspend the dividend altogether until further notice. I don't know if it would have helped or hindered Corus's wounded stock price at this point, but it would have let investors know that any bet on the company is purely speculative.

Instead, Executive Chair Heather Shaw suggested in its press release announcing the dividend cut that the company wanted to strike a balance between paying down its debt and keeping shareholders happy.

Poppycock.

Dividend investors should abandon ship

They say that you should sell your losers and ride your winners.

If you've bought Corus stock for more than $6 a share, I'm afraid your best course of action is to sell while it's still trading above $5, because it's very possible this situation could get a lot worse before it ever gets better.

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Corus finished the third quarter ended May 31 with net debt (total debt less cash) of $1.9 billion — 3.4 times its annualized segment profit of $569.3 million. Corus wants to whittle that down to less than three times its annual segment profit.

It can do that in one of three ways.

First, it can maintain its annualized segment profit of $569 million while reducing net debt by approximately $217 million to $1.7 billion; it can increase its segment profit by $72 million (13% increase) without reducing its net debt; or it can do a little of both, which is the most likely course of action.

Is it enough?

Even if Corus lowers net debt to $1.7 billion and manages to increase its segment profit to $641 million over the next year — and that's a big if — the company's net debt would still be higher than its market cap, leaving only the most aggressive investors willing to give it the benefit of the doubt.

If you're a dividend investor, my advice is to stick to stocks where the yield is between 2% and 3% and the dividend itself is growing by 6% or more annually over a decent amount of time.

It is those stocks that will deliver above-average returns.

Corus isn't that stock — not by a long shot.

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