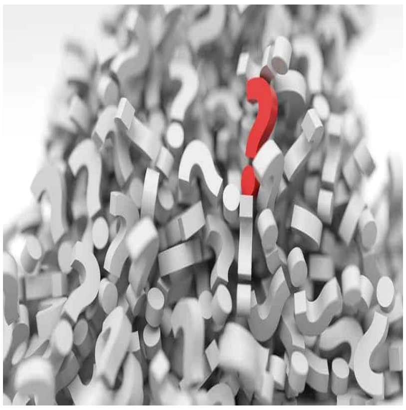

Should You Buy Corus Entertainment Inc. (TSX:CJR.B) Stock After the Recent 21% Plunge?

Description

Down 21% in five trading days, the media giant's stock price continues to suffer after a bigger than anticipated dividend cut, leaving contrarians wondering if there could be any upside for **Corus Entertainment Inc.'s** (TSX:CJR.B) equity valuation in the long term.

Corus management decided to concentrate the bad news in a single earnings announcement on June 27 by combining an expected dividend cut with a much delayed, hefty $1 billion goodwill impairment charge on the company's television segment and a small $13.7 million impairment charge on its radio broadcasting licences.

Although the dividend cut was expected and probably priced in to the equity valuation, analysts were expecting a smaller payout reduction than the 79% announced, and the change in payment frequency from monthly to quarterly made the new dividend plan a bitter pill to swallow.

A monthly dividend is worth more than a similar quarterly dividend, considering the compounding effect on a time-value-of-money basis. The lower than expected dividend and the lower payout frequency could make a significant portion of income investors flee the stock in droves.

Some hope?

Corus is now more committed to deleveraging its balance sheet in the shortest time, and management has spelled out debt reduction as the primary use of the additional free cash flow generated from dividend savings.

Not only does deleveraging make sense on corporate financial risk metrics, there are some further interest cost savings from the plan that will boost the media giant's free cash flow down the road, making Corus a potential "cash cow" that commands better valuation multiples.

Further, Corus's revised dividend-reinvestment plan could be good for the stock in another way that deserves a mention. The company has eliminated the 2% discount on issued drip shares and will no longer issue new shares from treasury, but buy the shares from the open market instead. This exercise removes the dilutive effect of the old plan by not increasing the outstanding share count.

Should you buy?

A 54% plunge in Corus's stock valuation so far in 2018 does attract a contrarian investor's attention, and the deep discount to book value could make a compelling invitation to value investors too, but due care should be taken with a Corus equity investment.

The new dividend payout is undoubtedly much safer than ever, while its 4.8% yield could be decent for new income investors, but the risk of further impairment charges to the firm's intangible-asset-dominated balance sheet is very real.

The biggest concern for the valuation is the sustained sequential decline in consolidated revenues and the recently accelerated plunge in television advertising sales quarter on quarter. Although several revenue diversification attempts are being made, and the firm's recent attempts in using artificial intelligence to improve customer targeting efforts are yet to show significant impact, management doesn't see a clear visibility to top-line stabilization yet.

Corus may continue generating declining revenues in the foreseeable future, and investors' hopes lie on the company's success in further reducing operating costs. Management has recorded success in reducing employment and other costs, and the latest tech-focused efforts in cutting production costs could deliver some cash savings too, but cost cutting alone can only go so far in saving a declining industry; revenue stabilization is a necessity.

Until there is some clear visibility towards a leveling off of the revenue declines in the television segment, Corus remains a speculative buy.

That said, by the time everyone agrees that the company's revenue trend is stable, the share price may have taken off, and investors on the sidelines will have missed the upside, making now the best time to take a small bite into the ticker.

Most noteworthy, Corus seems to have no clear plan on what to do with free cash flow after paying down debt, and management was clear during the latest earnings conference call that they do not have any intention make acquisitions in the near future, as the market is a bit pricey, and they can cheaply build value organically.

It's possible that Corus could become an acquisition target to a strategic buyer with a better plan of monetizing the firm's content at better multiples … but who could that be?

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