



Why Corus Entertainment Inc. (TSX:CJR.B) Could Continue to Soar After a Strong Q2

Description

Corus Entertainment Inc. ([TSX:CJR.B](#)) was up 6% on Friday as the company released its quarterly earnings, which showed signs of life for the company. It was a little more than a year ago that the stock [went over a cliff](#) over concerns that advertisers were moving away from Corus and toward online streaming, but with sales up 4% in Q2, there is hope that that might not be the case. The downside was that net income totalling \$11.7 million was noticeably down from the \$45.7 million that the company earned a year ago.

Has Corus done enough to warrant a rally?

While early indications are that investors were pleased with the results, let's dive a little further into the company's performance in Q2 to see just how well it did and whether the results make Corus a good buy today.

What stood out the big drop in profitability despite sales showing some decent growth. A near 75% drop in net income could raise some alarms for investors. However, of the \$45 million reduction in pretax profit, \$34 million was a result of higher depreciation costs and another \$10 million was a change in other expenses.

The company explains that the increase in other expenses was the result of impairment charges to one of its investments, which was offset by foreign exchange changes. Whereas a year ago, the company incurred no such expenses while benefiting from a foreign exchange gain. Given the nature of this non-recurring expense and its size, it shouldn't present a big concern for investors.

As for the more significant increase in depreciation, this stems from changes in accounting and primarily an adjustment in the estimated useful life of certain assets. This is a one-time change that investors wouldn't expect to see in future quarters, and although it will impact the comparability of prior year amounts, it has no effect on the company's overall profitability or financial health, and so this too should be a non-issue for investors.

Segmented profits up

What is most encouraging for the quarter is that Corus showed some signs of life when it came to its TV segment. Sales were up 5% year over year and profits rose by 10% as well. This segment represents the bulk of the company's sales, and so it's important that it's showing some growth again.

Unfortunately, segmented profits were weighed down by lower earnings from radio and a loss from the corporate segment, but in total, there was still a minor improvement from the prior year.

Bottom line

Corus had a strong quarter, as it did what it needed to do to get investors believing that the stock has turned things around. Although it didn't see a boost in the bottom line, the line items causing the decrease there shouldn't be a concern for investors. With the stock up over 40% since the start of the year, there's been a lot of positivity behind Corus lately, and I wouldn't be surprised if the share price [continues to rise](#).

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Author
djagielski

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