Don’t Buy Corus Entertainment After its 17% Drop on a Q3 Earnings Miss

Description

Corus Entertainment (TSX:CJR.B) reported its third-quarter fiscal 2020 results on Friday. The event sparked a massive sell-off in its stock, as it fell by 16.7% to $2.92 by the afternoon. Let’s take a glance at some important factors from the company’s Q3 earnings report before discussing why you shouldn’t buy its stock right now.

Corus Entertainment’s Q3 earnings

In the quarter ended May 31, 2020, Corus Entertainment posted earnings of $0.09 per share — down 25% from $0.12 in the previous quarter. It was also 71% weaker than the EPS of $0.31 in Q3 of fiscal 2019. With this, the company missed Wall Street’s consensus EPS estimate of $0.15.

Previously in Q2, its’s earnings went up by 71.4% on a YoY (year-over-year) basis.

Revenue slipped

In the last quarter, Corus Entertainment’s revenue was $349 million — down 7.2% sequentially and 23.9% lower on a YoY basis. Just like its earnings, its revenue also fell short of analysts’ revenue expectation of $377 million.

It was the second quarter in a row when the company’s total sales fell on a YoY basis and missed analysts’ estimates.

Shrinking profitability

The Canadian broadcasting and media company reported a massive 34.9% YoY and a 4.2% sequential decline its adjusted EBITDA to $111 million in Q3. This resulted in a 5.4 percentage points contraction in its EBITDA margin to 31.8% as compared to the same quarter of the previous fiscal year.

Notably, its highest quarterly adjusted EBITDA margin in the last five years was 42% in the first quarter of fiscal 2016, while the lowest was 27.4% in the fourth quarter of the same fiscal year.

What hurt its earnings in Q3?

In its earnings report, Doug Murphy — Corus Entertainment's president and CEO — highlighted that the company saw an "increase in viewership and engagement across all platforms."

However, he pointed out that Corus couldn't optimally monetize these audiences, as advertising demand slumped due to a decline in sales and economic activities due to the ongoing pandemic.

It is important to note that while the company's revenue from the television segment fell by about 21% YoY in May 2020 quarter, its radio segment revenue registered an even worse 52% drop.

On the positive side, Corus's cash flow remained stable, as it generated a free cash flow of $90.8 million in Q3 of fiscal 2020, as compared to $90.1 million in Q3 of fiscal 2019.

Why you shouldn't buy it right now

In this quarter, the shares of Corus Entertainment have inched up by about 39.4% as compared to a 15.5% gains in the **S&P/TSX Composite Index** as of Thursday's closing price. By comparison, **Telus** stock rose by just 3.6% on a quarter-to-date basis, while **Rogers Communications** stock lost 5.8%.

Corus Entertainment's disappointing third-quarter results could continue to keep investors as well as analysts pessimistic about its future outlook. These reasons could continue driving its stock downward. More importantly, I don't see — at the moment — any valid reason for a major rebound in the advertising rates in the near term that could help media firms like Corus regain strength.

So, you may NOT want to buy its stock at this point — just because it has tanked so much after the Q3 earnings event.

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Date
2025/08/22
Date Created
2020/06/26
Author
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