



Big Red Flags From Corus Entertainment's (TSX:CJR.B) Conference Call

Description

Last week, **Corus Entertainment** ([TSX:CJR.B](#)) released [third-quarter results](#). Unfortunately, [it wasn't pretty](#), and the stock price crashed on disappointing earnings. On Friday, the stock lost 16.57% of its value and is now close to trading near March lows.

Why the red day? For starters, earnings of \$0.09 per share missed by \$0.06 and revenue of \$348.97 million missed by \$24.33 million. It marked the second straight quarter in which it missed on both the top and bottom lines.

Secondly, the quarterly conference call did little to alleviate fears. Here are some key takeaways from management.

Advertising is under pressure

There is no way to sugar coat it — “it was a rough quarter,” as per President and CEO Doug Murphy. At issue, advertising fell off a cliff, as customers pulled back on ad spending.

“As witnessed by other broadcasters around the world, we experienced significant advertising revenue declines. TV advertising was down 31% and radio advertising was down 52%.” — Doug Murphy, president and CEO

This took a big chunk out of revenue and was a big reason why revenue lost 24% year over year. Although Corus Entertainment has been deleveraging in recent years, leverage increased to 3.22 times net debt to segment profit (from three) at the end of third quarter.

The outlook for the fourth quarter doesn't look any better. Management expects a modest fourth quarter in which advertising revenue is once again expected to dip year over year. As of the release of third-quarter results, it is pacing behind last year's advertising revenue.

Government bailout

It is clear that Corus Entertainment would have been in worse shape if not for the Canada Emergency Wage Subsidy (CEWS). Since it met the required threshold, the company received \$17 million in funding from the government.

The subsidy was “recorded as a reduction in employee costs in the interim financial statements. This program is doing exactly what it is intended to do. Provide support to employers like Corus during the period of highest disruption as we continue to provide essential services for all Canadians,” said John Gossling, executive vice president and chief financial officer

While Corus Entertainment benefited from the CEWS in the third quarter, management remains unclear if it will again in the fourth quarter. However, it is worth noting that the company is still paying a dividend and recorded free cash flow of \$90 million in the quarter.

Is this a company in dire need of a bailout? Is there a risk that the government asks for the suspension of the dividend or a hold on buybacks as a condition of CEWS? Management was quite clear, there is no correlation — at least in terms of buybacks: “No, there’s no — that is totally unrelated. And we have no interest at this time of doing any buybacks ... but there’s no linkage between the wage subsidy and the cessation of the NCIB,” said Murphy.

I would, however, caution that just because the first rounds of the CEWS did not come with restrictions, it does not mean future rounds will not. There is increasing pressure on the Feds to impose restrictions on bailout funds, including the CEWS.

Is Corus Entertainment a buy today?

There is a reason why Corus Entertainment’s stock price lost almost 17% of its value on Friday. The company is being hit hard by the pandemic, as advertisers pull back. By all accounts, the fourth quarter will also be a challenging one.

Likewise, I am cautious about investing in any company taking bailout money — even those posting significant cash flow. It had the net effect of reducing expenses and inflated profitability. In fact, the wage subsidy accounted for a positive EPS of \$0.08 per share. Had the company not taken the subsidy and kept its employees on payroll, it would have exited the quarter with EPS of \$0.01 per share.

Overall, this is still company facing many headwinds.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CJR.B (Corus Entertainment Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing

Date

2025/07/20

Date Created

2020/06/29

Author

mlitalien

default watermark

default watermark