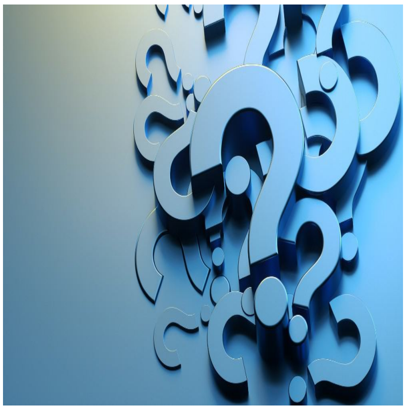

Is Corus Entertainment Stock at Risk of Cutting its Dividend?

Description

As many investors know, this market environment is creating incredible opportunities for investors, as many stocks trade undervalued. However, of all the stocks offering value on the **TSX** today, there might not be a cheaper stock than **Corus Entertainment** (TSX:CJR.B).

Corus has been cheap for some time now. It was struggling prior to the pandemic and then impacted significantly in the first few quarters, sending its stock falling rapidly. However, since those impacts, Corus has performed exceptionally well. Its revenue has recovered, and the company's operations are in much better shape now, which has allowed it to pay down debt and get its financials in better shape.

Therefore, slowly the stock started to rebound. Roughly a year ago, the stock was trading between $5.50 and $6.50 a share, significantly higher than the $3.72 it closed at on Tuesday this week. And even at those prices, Corus stock was trading at an ultra-low forward price-to-earnings (P/E) ratio of just 7.7 times.

So, the fact that it's sold off significantly since then and today trades ultra-cheap could present investors with a major opportunity. In addition, its dividend yield, which was as low as 3.8 % when the stock peaked back in August of 2021, today offers a much more significant yield of 6.45%.

But as many investors know, often, a high yield can be a red flag stating that there's significant risk ahead. So, is Corus exposed to the market environment, and could its dividend be at risk of being trimmed?

How badly could Corus stock be impacted by a potential recession next year?

There's no question that a recession would impact Corus's business. However, while some impacts are inevitable, a lot of revenue that the company brings in is also resilient.

First off is advertising sales, easily the largest source of revenue for Corus stock, particularly from its

TV segment. Advertising sales are certainly something that will slow down in a recession. However, it's also worth pointing out that advertising sales are already being impacted by the current environment and, therefore, may not fall all that much if the economy was to worsen.

For example, car manufacturers have almost no inventory right now due to supply chain issues and are therefore spending very little on advertising at the moment. Airlines and vacation companies are in a similar boat. The travel industry has been consistently struggling to keep up with demand and, therefore, has no incentive to spend cash on advertising to drive more customers.

Besides sales, subscriptions are also an area that Corus stock could see a slowdown in sales. However, with the company earning so much free cash flow, it should be able to withstand short-term impacts on the economy, such as what we're already seeing today.

How safe is the entertainment company's dividend?

Over the last couple of years now, Corus has consistently paid an annual dividend of $0.24 per share. Meanwhile, over the last five quarters, the stock's lowest trailing 12-month earnings per share (EPS) were just $0.68. This gives the stock an ultra-low payout ratio of just 35%.

However, sometimes EPS can be misleading, so it helps to check the cash flow statement as well, just to ensure that the company earns significant cash flow to meet all its financial obligations.

And when you look at the cash flow statement, you see what a cash cow Corus stock is. Not only is its dividend safe, but in just the last two quarters alone, Corus has earned enough free cash flow to pay the dividend for the next nine quarters.

So, although Corus stock looks unbelievably cheap and its dividend yield continues to creep up, the company's financials are still in excellent shape, and therefore, it looks like one of the best stocks you can buy now.

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