Digging Into Shaw Communications First Quarter Results

Description

Calgary telecom giant **Shaw Communications** (TSX:SJR.B, NYSE:SJR) delivered muddled first quarter results Tuesday morning.

While the company beat the street's profit expectations and hiked its dividend, digging into the meat of the report highlighted problems in Shaw's business. Let's review the results.

A closer look at the numbers
At first glance, Shaw's first quarter numbers were impressive.

Revenue gained 3.3%, rising to $1.36 billion, from $1.32 billion a year earlier and coming in-line with analyst estimates.

And plenty of that top-line growth was trickling down to the bottom of the income statement. The company said before the market opened that it earned $245 million, or $0.51 per share, in the quarter ended Nov. 30 as it saw profit growth at all three of its major divisions.

That beat the consensus estimate of $0.49 and marked an improvement over the $235 million, or $0.50 per share the company reported during the same period last year.

On the back of these strong results, Shaw also announced a 8% dividend hike. And the company reiterated its guidance of 2% to 4% revenue growth in 2014.

Digging beneath the headlines
Overall, these results weren't bad. It was once investors started digging deeper into the numbers that the problems started to emerge.

First, Shaw lost 29,619 basic cable and 9,323 satellite cable subscribers during the quarter. Margins at the company's satellite dividend were weaker than expected and profitability at Shaw's cable group continue to erode.

Most of these losses are being blamed on the competition from **Telus** (TSX:T, NYSE:TU) which has slashed prices to steal market share. Shaw has resisted offering customers steep discounts and promotions as a means to compete with rival Telus, instead focusing on improving the customer experience.

At the moment this strategy has been working. Shaw has been able to offset subscriber losses by raising prices and television revenues actually grew 4% year-over-year during the quarter. But with monthly Albertan cable bills approaching the three-figure mark, how sustainable is this strategy?

And while steep competition is certainly part of the story here, accelerating subscriber losses reported from **Cogeco Cable** suggest that Shaw's poor results are part of a broader trend: more Canadians are cutting cable completely. That's a worrying development, not just for Shaw, but for the entire industry as well.

Another worrying number: Shaw is spending more in capital investment and dividends than the business can generate. Investors should be concerned that the company's overindulgent payout, funded in part by equity issues, is diluting shareholders.

Foolish bottom line
A profit beat and a dividend hike can't hide the fact that there are problems brewing underneath the surface at Shaw. And this quarter only highlighted the issues the bears have been worried about the past few years.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:SJR.B (Shaw Communications)

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