The Stock Picker's Guide to Shaw Communications

Description

Operating primarily in western Canada, **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) has four distinct divisions — satellite and cable TV, telephone and internet, media, and the forgotten child of the company, wireless tracking.

It supplies cable to 2 million Canadians, and satellite TV to 904,000 additional homes, controlling approximately 30% of the Canadian television market, even though the company is primarily focused on western Canada. It has 1.9 million internet subscribers and supplies home phone service to an additional 1.3 million people. Many customers choose to subscribe to more than one of the company's services, bundling them together for a slight discount on their monthly bill.

Unlike chief western Canadian competitor **Telus** (TSX:T)(NYSE:TU), Shaw hasn't entered into the wireless space. It did acquire spectrum back in 2008, but never bothered to do anything with it. Early in 2013 the company entered into an agreement with **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) to sell its spectrum. The deal is expected to close sometime in 2015, once regulators approve it.

Shaw is betting hard on wireless internet, investing in a network of more than 30,000 GoWifi locations across western Canada. These locations allow existing Shaw customers to use their smartphones and tablets to access wifi on the go. The company believes that this network will enable it to acquire more customers and help keep current customers happy. Opportunities also exist in charging non-Shaw users to access these hotspots.

In 2010, Shaw acquired more than 15 television channels from bankrupt Canwest, including Global, Slice, History, TVtropolis, Showcase and Lifetime. Shaw has continued to acquire channels since the original purchase, and opportunities should present themselves in the future to add to the media division. However, the media division was the least profitable part of the company in 2013, with only a 31.5% operating margin. This compares to 47.0% for the cable division and 34.7% for the satellite division.

Shaw has a few challenges going forward. The Canadian government is looking into allowing customers to pick and choose television channels, instead of forcing them to subscribe to bundles.

This will obviously hurt margins if allowed, but it may keep a few customers around who were thinking of cutting cable completely.

Which brings us to Shaw's other main challenge going forward, and that's people who decide to cut cable completely. Shaw is somewhat insulated from this because cable cutters will more than likely keep their internet service so they can stream their favorite shows, but losing cable customers still will hurt. Home phone revenues are also at risk as more younger customers just have a cell phone or use the internet to make calls.

The Shaw family controls 79% of the voting shares and most of the highest executive positions within the company, meaning their interests are aligned with other shareholders. Shaw has a monthly dividend of 8.5 cents per share for a yield of 4.2%. The company has a history of growing the dividend too, from 7 cents per month in 2009 to 8.5 cents today. The board has also indicated the intent to grow the dividend 5-10% annually for the next few years.

Foolish bottom line

While Shaw is reasonably valued at a 16 PE ratio, the company will struggle to grow revenues going forward. The GoWifi network should help keep internet customers happy, but both the cable and home phone divisions are suffering from customers choosing to cut the cord. Earnings only increased 1% year over year, and analysts aren't expecting much additional growth in 2014. But the dividend is safe, and Shaw should be a steady performer. Just don't expect much growth.

CATEGORY

1. Investing

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2. NYSE:SJR (Shaw Communications Inc.)
3. NYSE:TU (TELUS)
4. TSX:RCI.B (Rogers Communications Inc.)
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