



Shaw Communications: The Wireless Wonder

Description

Calgary-based **Shaw Communications** ([TSX: SJR.B](#))([NYSE: SJR](#)) has recently released its Q2 2014 results, giving investors a glimpse into Canada's top telecommunications companies. As the only major telecom player without cell phone capabilities, investors have watched Shaw closely to see how it could compete against the likes of **Rogers Communications** ([TSX: RCI.B](#))([NYSE: RCI](#)), **Bell** ([TSX: BCE](#))([NYSE: BCE](#)) and **Telus** ([TSX: T](#))([NYSE: TU](#)).

Rather than chasing the pack into wireless offerings, Shaw has been rapidly growing its [Shaw Go WiFi](#) program. Now up to 35,000 hot spots, the program is designed to get Shaw customers off of its competitors 4G networks. But how has the company fared during this past quarter, and has this investment in wifi hot spots turned into added customers?

The numbers

Consolidated revenues in Q2 2014 came in at \$1.27 billion, a modest bump from the \$1.25 Shaw earned in Q2 2013. Net income for the quarter again saw a modest increase over last year adding up to \$222 million (\$0.46 per share) from \$182 million (\$0.38 per share) in Q2 2013.

The year-to-date revenues for Shaw are sitting at \$2.63 billion up from \$2.57 billion during the same period last year. Net income is \$467 million (\$0.98 per share) up from \$417 (\$0.88) per share last year. The numbers have steadily climbed but what was driving the results?

Cable & satellite

Shaw unfortunately saw another quarter of subscription losses in its video division, losing an additional 20,758 customers during the quarter, bringing its year-to-date video subscription losses to 50,377. This is on top of the 53,402 subscriptions lost during the same period in 2013.

Increased competition in the west from Telus (and its free 42? TV promotion) and the continued expansion of **Netflix** has hurt its customer base. Yet revenues are still marking slight gains, with total cable (TV, internet, phone) revenues inching up 3% to \$839 million for the quarter and up 4% to \$1.7 billion in year to date. This translates to an operating income of \$398 million for the quarter and \$393

million so far this year.

On the satellite end Shaw lost 1,405 subscribers this quarter compared to increasing subscriptions by 1,328 in Q2 2013. Revenues still managed to rise to \$220 million, up from \$209 million. With operation income falling to \$69 million from \$73 million, this drop has been attributed to additional costs from the Anik G1 Satellite project.

Shaw Media

This is the division of Shaw that controls and operates TV networks such as Global, Showcase, History, Slice, and Food Network Canada. Shaw Media had a difficult quarter with advertising revenues dropping in the wake of the Sochi Olympics. Revenues were \$239 million down from \$249 million last year, and operating income before amortization was \$61 million down from \$72 million during last year's Olympics-free quarter.

Shaw Media did manage to close a deal during the quarter, selling its 50% interest in French language stations Historia and Series+ and its 49% interest of ABC Spark to Corus Entertainment in exchange for a 20% stake in Food Network Canada. This added a net gain of \$49 million to Shaw Media.

An interesting side note is that as we have seen the CBC experience record cut backs, Shaw Media has been increasing its home-grown content, and is quickly becoming the leader among the private telecoms when it comes to Canadian content. For example, Shaw Media is currently producing a variety of shows such as *Lost Girl*, *Vikings*, *Continuum*, *Remedy*, *Bomb Girls*, *Rookie Blue*, *Copper*, *King*, and *Working the Engels*.

Shaw Go

One way Shaw is trying to grow its Shaw Go WiFi is through a variety of apps based on different TV channels it operates, such as History, Global, and Treehouse. The apps give its customers the ability to watch their favorite Shaw-operated programs anywhere, and for free with Shaw Go WiFi. Other telecoms have been expanding into mobile TV on smartphones and tablets but the ability to watch is tied to a mobile data plan.

This type of "internet anywhere" offering is beginning to turn the tide for Shaw. Although it lost 20,758 video customers in the quarter, its internet division added 12,767 subscriptions during the quarter, up from 7,675 last year. With the benefit of Shaw Go the company has been able to add a year to date total of 15,513 subscriptions up from 13,312 last year.

Along with Shaw Go for existing customers Shaw has also become the free public wifi provider at all civic-owned facilities in Calgary and Edmonton. While this deal may not earn the company much in terms of revenues the deal does include advertising rights, and will lower the data usage bills for residents.

Foolish bottom line

This has been an active year and quarter for Shaw behind the scenes, as it has been steadily upgrading its infrastructure. It has already spent \$499 million so far this year with \$234 million coming in the past quarter, up drastically from \$316 by this time last year.

Since the release of the Q2 results analysts have been somewhat mixed in their views of Shaw, with price targets varying between \$25 and \$27. But most analysts agree on a “hold” rating with a sector perform grade. The stock hit a 52-week high of \$26.80 on April 10, keeping it within the price target range. The stock has been quite stable over the past year with a 52-range of \$22.23-\$26.80, and closed Friday at \$26.10.

While analysts may have taken their targets back a little, Shaw has recently paid its first dividend since an 8% increase was announced, bringing the quarterly dividend to \$1.10 on its class B non-voting participating shares.

CATEGORY

1. Investing

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1. NYSE:SJR (Shaw Communications Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:RCI.B (Rogers Communications Inc.)
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