3 Reasons to Be Bullish on Shaw Communications Inc

Description

Canada's cable television operators are in a precarious position.

On the one hand, they're still terrific businesses. Most Canadian consumers insist on keeping cable, and we're such a wired society that giving up internet is out of the question too. Both of these businesses offer consistent monthly revenue, customers who hardly ever turn over, and for many players in the industry, geographical limitations on competition.

Over the past few years, a few chinks have begun to appear in the cable armor. Customers are starting to cut the cord on their expensive cable subscriptions, choosing to get their television fix using services like **Netflix**. The home phone business is weak as well, as many younger people are forgoing a phone at home altogether, choosing to get by using just a smartphone. Without wireless to help stem the tide, many of the incumbents in the space wouldn't be looking so bullish.

So it's unsurprising shares of **Shaw Communications Inc** (TSX: SJR.B)(NYSE: SJR) underperformed. From 2009 to 2013, shares largely traded between $20 and $22 each, missing out on the bull market completely. The only consolation to investors was the company continued to pay its generous dividend, which it has managed to grow each year since 2009.

The last 18 months have been good for the company. Shares are up nearly 15%, and total return including the dividend is close to 25%. Can it continue to perform well? I think it can. Here are three reasons why.

1. Bet on wifi

I'm currently writing this in a coffee shop, enjoying a delicious beverage. The only problem? The wifi is *terrible*.

Shaw's management knows there are many folks like me who want fast, dependable wifi when away from home. This is why the company has invested $75 million building more than 30,000 wifi hotspots across western Canada. The purpose of the network has more to do with customer retention than selling wifi access.

Currently, Shaw boasts around two million internet customers, compared to **Telus Corporation's** (TSX: T)(NYSE: TU) 1.5 million. With little to differentiate between the two services, Shaw is wise to invest in something so simple that can put it over the top. This should lead to more customer retention, and ultimately, profits.

2. Pricing power

In the west, Shaw essentially competes with Telus in the cable business. **BCE Inc** does have a satellite TV service that serves the entire country, but its market share isn't huge. Television in the west is largely a duopoly.

Even though Telus has been aggressively cutting prices in an attempt to gain market share, Shaw still enjoys a dominant position. And as market leader, it's free to keep on passing annual price increases to its customers. Sure, a few complain and head over to the competition, but the same thing is happening with Telus's customers.

This means that Shaw is largely insulated from folks cutting the cord. It's able to increase prices at the same rate that it loses subscribers, giving it tremendous pricing power.

3. Potential acquisition

Analysts have long speculated that Shaw would make an attractive target for **Rogers Communications Inc** (TSX: RCI.B)(NYSE: RCI). Shaw is dominant in the west, where Rogers has little in operations, aside from wireless. And now that Bell Canada has taken the steps to privatize **Bell Aliant Inc**, speculation has increased that Rogers will feel forced to do something to counter its long-time rival.

Even if Rogers doesn't buy the whole company, its holds options that give it first crack at Shaw's wireless spectrum, which the company acquired in 2008. It is expected to apply to the federal government before the end of the year to see whether it's allowed to buy the spectrum. If it is, Shaw's shares should react positively to the news.

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1. Investing

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