



How Shaw Communications Inc.'s 64% Profit Boost Can Work in Your Favor

Description

The Internet has brought many new and exciting opportunities and challenges to our culture and to the markets. One of those challenges is the growing number of people cancelling their cable packages in favor of Internet streaming. This has been a great challenge to all telecom companies, but some have attempted to ride out the storm and adapt its corporate structure to withstand the waves of the future.

Shaw Communications Inc. ([TSX: SJR.B](#))([NYSE: SJR](#)) is one of those companies, despite losing 82,618 net cable subscribers in fiscal 2014 and another 109,502 in fiscal 2013 revenues, that continue to creep up. Most astonishingly fourth quarter profits are up 64% over last year.

The unbundled numbers

Let's take a quick look at the most recent report, which came out last week. In just the fourth quarter, Shaw posted revenues of \$1.26 billion up from \$1.24 billion. This was helped by a boost in operating margins, which rose to 41.6% compared to 39.8% last year. The very good news comes in here when we look at net income which rose to \$192 million (\$0.40 per share) in Q4 2014 from \$117 million (\$0.24 per share) in Q4 2013. Impressive numbers but is in fact \$36 million lower than what was posted in Q3 2014.

When we look at the annual results, we see some modest gains, which is actually very positive for the telecom industry right now, and a modest gain is far better than the walloping **Rogers**

Communications Inc. took in the last quarter. In all, Shaw had annual revenues of \$5.24 billion up from \$5.14 billion in 2013. The operating margin remained flat over the past two years at 43.2%, while net income rose to \$887 million (\$1.84 per share) from \$784 million (\$1.64 per share) in 2013.

A segment of the balance sheet that should comfort investors is the amount of free cash flow Shaw was able to generate over the past 12 months, increasing to \$143 million compared to \$61 million in 2013.

Customer base

As mention earlier, the trend of cord cutting is cutting into Shaw's customer base as it had a net loss of

20,166 cable subscribers in the quarter, though this is an improvement from the 29,522 net cable customers Shaw lost in Q4 2013. Despite these losses, Shaw still holds a total cable subscription base of 1,957,629 and managed to post a 2% increase in its cable division's revenues, which totalled \$837 million.

The flip side of the cord-cutter movement, though, is the dependency on the Internet. This has helped to add 11,983 net internet subscribers in Q4 up from 10,564 last year. With 39,895 net internet customers added over the entire year, up from 28,031 in 2013, bringing its total subscription base 1,930,401. Thanks to those customers, Shaw has grown its Shaw Go WiFi program to 1.25 million devices accessing 45,000 hotspots.

What awaits

While these numbers aren't stellar, they are showing a slow-and-steady approach that will benefit investors over the long term. Programs such as the Shaw Go WiFi, which lure people from their mobile data plans, and the new SHOWMI streaming service show that the company is ready to adapt to a marketplace that is changing very rapidly.

Shaw closed Friday at \$27.95, near the top end of its 52-week range of \$24.10 to \$28.50. It is trading at its average price target \$27.40, leaving little room for share price growth, but Shaw does offer an annual dividend of \$1.10 with a yield of 3.93%.

CATEGORY

1. Investing

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1. NYSE:SJR (Shaw Communications Inc.)
2. TSX:SJR.B (Shaw Communications)

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