



Shaw Communications Inc.'s Disappointing Results Suggest Trouble Ahead

Description

Shaw Communications Inc. ([TSX:SJR.B](#))([NYSE: SJR](#)) has built an impressive digital presence throughout western Canada, forgoing wireless business in favour of a bulked up WiFi initiative. However, Shaw's quarterly numbers were disappointing in its second quarter, as the media company deals with cord-cutters and intense competition from rival **Telus Corporation**. How will this affect Shaw's stock price in the long term?

Shaw's profit for the three-month period ending on February 28 was \$168 million, down 24% from last year due in part to restructuring costs, as well as a one-time gain due to the sale of two specialty channels last year. The second quarter income was \$0.34 per share, missing analyst estimates of \$0.39 per share.

Shaw's overall revenue rose to \$1.34 billion, up 5% from last year. Revenue from the media segment, which includes specialty television channels and Global Television, was flat at \$238 million.

More worryingly, Shaw lost about 36,000 cable customers, 12,000 landline telephone subscribers, and 1,800 Internet customers in the second quarter—which is worse than analysts had expected.

Macquarie Capital Markets Canada's Greg MacDonald told the *Globe & Mail* the losses in the quarter "reflect a growing industry concern that cable and satellite services are quickly losing pricing power and may now be reflecting cord-cutting."

Shaw is also under pressure from Telus, which unlike Shaw, offers a wireless option. Telus has pilfered cable and satellite customers from Shaw.

"Overall, the results indicate that Shaw has still not found a sustainable way to stem the negative impact of wireless substitution, TV cord-cutting and competitive intensity from Telus on its residential operations," said Desjardins Securities analyst Maher Yaghi in the *Globe*.

After seeing the competitive landscape erode in the wireless sector over the past few years, Shaw opted to scrap its wireless deployment plans in favour of a less expensive WiFi initiative.

Although the WiFi plan could result in lower capital expenses and stronger free cash flow for Shaw, it leaves Telus room to apply pressure on Shaw's core cable markets by leveraging its wireless cash flow into formidable IPTV (Internet Protocol Television) and satellite services.

Shaw's stock has fallen 10% since the beginning of the year, but the company does offer a healthy dividend yield of more than 4%. In the long term, Shaw could bounce back, but we believe there are other telecom stocks on the market that offer better prospects at this time.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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