Is Shaw Communications Inc. the Perfect Forever Stock?

Description

The perfect buy-and-hold-forever stock is the Holy Grail for many investors.

As the old expression goes, a portfolio is sort of like a bar of soap: the more you handle it, the smaller it gets. Thus, the advice is usually simple: investors should find high-quality companies, buy them at a fair price, and hold them forever. It's worked pretty well for Warren Buffett.

But there's a problem with the buy-and-hold-forever philosophy. What if the company you've hitched your horse to gets replaced? I think we'd all agree that the future of Sears, Kodak, Polaroid, and others looked pretty strong 30 years ago. But each was eventually crushed, either by new technology or a better competitor.

It's easy to look a few years into the future, but it's much harder to look decades out. That's what makes it difficult to buy stocks to hold over decades. With that in mind, let's take a look at the future of **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) and see if it can still be dominant 30 years from now.

The pro case

There's an easy argument to be made for Shaw always having a role in its customers' future. Even if folks migrate away from cable, they'll still need Internet.

Shaw's management team realizes this, and has started to position the company accordingly. Instead of investing in wireless, the company took the cash and put it into a network of nearly 40,000 WiFi hotspots across western Canada, giving its customers access to fast and secure Internet on the go. That's a nice perk for folks who are addicted to their smartphones and laptops, and has resulted in nice subscriber growth.

Meanwhile, the television decline isn't such a big deal. The company loses approximately 1% of subscribers each year, but can easily raise prices to keep pace. Additionally, the new CRTC-mandated rules that will allow customers to customize cable packages with individual channels might actually be a good thing, since folks may feel more inclined to stick around if they're paying $40 per month compared with $70.

Besides, people who cut cable usually end up spending more on Internet since they have the extra cash to burn and because they want good performance when they watch stuff online.

The con case

There are two structural changes that have the ability to really hurt Shaw over the next decade.

The first is the continual elimination of the traditional telephone line. Thousands of Canadians don't bother with a home phone, myself included. We get by with cell phones and a combination of email, texting, and Internet calling. Shaw has responded to this trend by offering home phone service for next to nothing in a bundle deal. But as older customers get replaced by younger ones, this trend of dropping landlines will continue.

The big elephant in the room is the future of television. There's little doubt that budget-conscious Canadians are dropping the service by the thousands, and fears are that eventually the pace of unsubscribers will increase to the point where price increases can't stem the revenue losses.

I think sports are the important part of this debate. There are many cable customers who will not cut their service until a reliable new way to watch the big game gets introduced, whether it's a **Netflix** for sports, or whether the big leagues combine to sell some sort of affordable way to access every game. Who knows when or if this will ever happen.

Shaw has also responded to Netflix by introducing Shomi, a video-on-demand service with **Rogers Communications**, but that's for existing subscribers only. By making Shomi for current subscribers, critics argue, it proves that Shaw doesn't understand the future of consuming media.

The verdict

Personally, I think Shaw will adapt. The company has done a nice job investing in its Internet service, and cable's demise has been greatly exaggerated—at least for now. But going forward, I think investors need to keep an eye on the underlying numbers, to ensure that the business is still healthy. Shaw isn't quite the no-brainer it was a decade ago, even if it still is a great company.

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1. Investing

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1. Editor's Choice

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nelsonpsmith