



## Is Shaw Communications Inc. Still a Forever Stock?

### Description

I recently moved into a new place, so new that the paint was barely dry. The parking lot hasn't been paved yet, and there's no grass in the front of the building. This isn't a big deal; I'll gladly put up with stuff like that in exchange for living in a brand new building.

One thing I thought was going to be a big deal was the lack of cable television. The plan is to eventually get a common plan for everyone, but it'll take a couple of months before the other suites are occupied and we can come to a consensus on what package everyone wants to get.

I thought this would be a big deal, but with the exception of missing a few Toronto Blue Jays baseball games, a lack of cable hasn't affected my life at all. I just fire up **Netflix** or Youtube when I want to watch something using my Chromecast to beam it to the big TV. I've also used the time to increase my reading, which is usually far more educational than watching television.

It's almost gotten to the point where I don't miss television at all. In fact, I'm not sure I'm even interested when it comes time to get a cable package. That's a huge difference in attitude compared with where I was a few months ago.

My new attitude towards television got me thinking. How exactly will decisions like mine affect **Shaw Communications Inc.** ([TSX:SJR.B](#))([NYSE:SJR](#))? Let's take a closer look.

### The cable business

It might not look like it on the surface, but the cable and cigarette businesses have a lot in common. They're both slowly shrinking, but are able to make up for it by increasing the price charged to customers.

Throughout the first six months of the company's fiscal 2015, this trend has continued. The cable business lost approximately 2.5% of its subscriber base, with more than 50,000 out of about 1.9 million customers choosing to leave. The company posted similar numbers in the satellite television business, losing approximately 26,000 out of 850,000 customers during the same time period.

Even the telephone business has been weak, thanks to millennials eschewing the home phone in favour of just having a cell phone. The company lost approximately 12,000 home phone subscribers during the same period, which was about 1% of its subscriber base. The only part of the consumer business that experienced any growth was Internet, which gained approximately 12,000 subscribers.

And yet, through the first six months of its fiscal 2015, Shaw has increased revenue some 3%, to \$2.73 billion, with free cash flow increasing 15% during the same time period. That's not bad, especially considering the weakness in the home phone and television businesses.

Shaw is able to boost revenues because it has such great pricing power. Sure, 2% of the customers are leaving each year, but it's still able to pass on a 3-5% price increase to the remaining 98% of customers. And once you factor in growth in the Internet business and services for businesses, the entire business doesn't look so bad.

### **But is it a forever stock?**

Here's where I struggle a little with Shaw. I don't think there's any chance it will go away any time soon, but that doesn't necessarily make it a forever stock.

Let's compare Shaw to **Telus Corporation** for a second. So far in 2015, Telus has increased its revenue by 4.6% on an annual basis, easily beating Shaw's 3% gain. Most of Telus's gains are coming from the wireless side, but it's also growing Internet subscribers and, more importantly, television subscribers.

And yet, Telus shares only trade at a slight valuation premium to Shaw's, at 17.9 times earnings compared with 16.3 times earnings. Considering the extra growth Telus shareholders are getting—especially in the dividend—it's easy to make the argument that Telus is a better buy than Shaw.

Shaw Communications is a great company, and will be around for years to come. But I'm not sure it's a buy-and-forget stock any longer. Investors should be fine to hold it, but need to be prepared to punt it from their portfolio if the declines in the television business start getting worse.

### **CATEGORY**

1. Dividend Stocks
2. Investing

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1. Editor's Choice

### **TICKERS GLOBAL**

1. NYSE:SJR (Shaw Communications Inc.)
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