Should You Buy Shaw Communications Inc. Before its Thursday Earnings Report Release?

Description

Since the start of 2015 the price of **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) has retreated by over 12%, even though it hiked its dividend by 7.7% in March. Actually, the stock was expensive at the start of the year, and is now trading closer to fair value at a multiple of 15.6.

Shaw Communications is reporting its third-quarter earnings results on Thursday. What should investors look for? First, let's take a look at its business.

The business

Shaw Communications is western Canada's leading network and content-experience company. It serves 3.2 million customers through a reliable and extensive fibre network.

Shaw owns one of Canada's largest conventional television networks, Global Television, and has 19 specialty networks such as Food Network Canada, HGTV Canada, and Showcase.

It is a diversified communications and media company with over $5.2 billion in revenues coming from these sources in fiscal year 2014: 63% from cable, 21% from media, and 16% from satellite services. In the same period, it generated $698 million of free cash flow.

What should investors look for?

If you bought Shaw when it was fairly valued around a multiple of 15 at $27 in early June 2013, fast forward to today and you're still around the same price.

However, people looking to invest in Shaw shouldn't be looking for exceptional price appreciation, but rather at the safety of its dividend, one that is growing at a steady rate that would lead to steady price appreciation.

It currently pays a yield of 4.3%, which is a pretty good starting yield for Shaw; it handily beats the low interest rate we get from a savings account or GIC today.

Shaw's annual payout is $1.185 per share, which totals to $532 million to shareholders. Its free cash flow generated from 2014 easily covers that amount with spare change, so Shaw's dividend is safe.

What about dividend growth?

The free cash flow ensures the safety of the dividend, and Shaw Communications shows a trend of increasing it. This growth trend, along with Shaw's culture of hiking dividends, should keep its 12-year streak of growing dividends going.

Year	Free Cash Flow
2011	–
2012	$482 million
2013	$604 million
2014	$698 million

With a payout ratio of 65%, which is in the middle of its historical range, and with earnings expected to grow 4-5% per year, Shaw's dividend can be expected to grow between 4-7% depending on if the company is willing to expand its payout ratio or not.

In conclusion

I'm not encouraging the timing of the market, but around earnings report time, the market can get especially emotional about a company. For a generally stable company such as Shaw Communications, it could go up or down 5% in one day.

Shaw's shares aren't expensive today at about $27, so investors could start a position in the company if they like its prospects of a 4.3% yield, which should grow 4-7% in the long term, while having steady price appreciation of roughly 5% per year.

If you buy Shaw today, you can expect a long-term return of at least 8.3%, while receiving an above average income. However, I think Shaw would be an even better buy under a multiple of 15, or under $26.50 per share. Cautious investors can buy half a position now and finish off the position after the earnings report in case the market reacts negatively to its earnings report.

If you plan to buy $5,000 in Shaw, you could buy $2,500 of it today and buy more after the earnings report.

If the earnings report is good and the price goes up, it means the company is doing better than expected. If not, then you might be able to spend that same $2,500 and buy more shares at a lower price.

CATEGORY

1. Dividend Stocks
2. Investing

3. Stocks for Beginners

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1. Editor's Choice

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