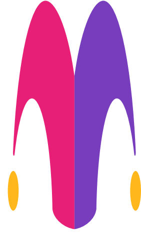

Shaw Communications Inc. Has a Great Yield, But Is That Enough?

Description

Although the company has been a great investment over the long haul, shares of **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) have recently hit the skids. After trading at an all-time high of more than $31 back in the winter, shares have given back ground, dropping all the way back down to current levels of $27 each, good enough for a fresh 52-week low.

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Investors are concerned about a couple of things. First, the company is slowly losing cable subscribers. During the first six months of 2015, Shaw lost approximately 2.5% of its cable subscribers, or 50,000 out of a total of 1.9 million. It also lost a similar percentage of satellite TV subscribers.

The company is also facing an unfavourable CRTC mandate come 2016. Instead of forcing customers to choose cable bundles, the CRTC has told television providers they need to provide an option for folks who want to pick and choose their cable channels. Bearish pundits say this will lead to a lower average cable bill, which ultimately will lead to lower profits.

But is that really the case? Well, sort of. Let's take a closer look.

The case for caution

The way I see it, there are two types of investors who hold Shaw. Some are bullish on the telecommunications business, but most are just looking for a secure payout that will rise a little faster than inflation.

Dividend investors don't have much to worry about. In 2014 Shaw earned $1.84 per share, while paying out $1.06 in dividends. Earnings have taken a bit of a hit thus far in 2015 because of some unusual expenses, but the company is still on pace to earn $1.78 per share this year and $1.80 per share next year, at least according to analyst estimates.

Here's where it gets a little tricky. Over the last decade, Shaw's monthly dividend has risen from 1.7 cents per share to 9.8 cents. You don't need the calculator to figure out that's a pretty impressive growth rate.

But with earnings projected to be mostly flat over the next few years, it's hard to see where the dividend growth is going to come from. Unless the company is willing to risk a rising payout ratio, it's obvious the dividend hikes will have to be closer to the rate of inflation over the upcoming years.

In fact, there's even the argument to be made that Shaw might see declining earnings over the next few years. One of the unique ideas management has come up with is building a network of WiFi hotspots, available exclusively to Shaw home Internet subscribers. After building out more than 40,000 locations across western Canada, something interesting has happened. **Telus** has started to adopt the same strategy.

Suddenly, one of Shaw's strategic advantages has started to go away. That's not good.

The dividend is still secure

I've painted a somewhat bearish picture of Shaw, which isn't completely fair. The company still has quite a few good things going for it.

First, it's reasonably valued. Shares trade hands at just 16.7 times trailing 12-month earnings, and at just 15.2 times projected 2015 earnings. That's cheap, meaning the market has largely priced in the risk.

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Over the next few years, investors can count on Shaw's 4.4% yield as well as the chance for some modest price gains. Remember, some 97-98% of cable subscribers continue paying each year, and the company has had success pushing through an annual price increase. Internet customers will also see an annual price increase.

There's also the potential for acquisitions. The obvious choice is **Corus Entertainment Inc.**, which is controlled by the Shaw family and is ran by the sister of Shaw's current CEO. Corus trades at less than eight times projected free cash flow, largely due to the same concerns that have plagued Shaw. The family might decide now is the time to bring Corus back into the fold, which would beef up its media offerings.

Shaw is still a good company. But it needs to do something to help stem the steady loss of cable subscribers. Until that happens, investors should temper their expectations and be happy with the generous dividend. Any capital gains would be just a bonus.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:SJR.B (Shaw Communications)

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nelsonpsmith

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