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

Description

Dividend-growth investors who have held **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) over the last decade have been handsomely rewarded, both with dividend raises and capital gains. In 2005 Shaw was paying investors a monthly dividend of 1.2 cents per share. These days, the monthly payout has surged to 9.8 cents per share. That's a growth rate of more than 20% annually, much more attractive than the typical raise an investor can expect at work.

These days, shares of the telecom giant yield 4.5%, one of the highest yields in the industry and on the TSX Composite Index itself. The dividend looks pretty sustainable at this point, with a payout ratio of just 70% of trailing 12-month earnings. If you look at forward earnings projections, the payout ratio slips to around 60%.

But Shaw's business isn't quite as bulletproof as it was a few years ago. Customers are cutting the cord and going without cable in record numbers, content to watch their favourite shows online or on services like **Netflix**. There's also upcoming rule changes implemented by the CRTC that will allow customers to pick and choose individual channels for their cable packages, rather than being forced to buy much more profitable bundles.

Should that be enough to steer investors away from this dividend grower? Let's take a closer look.

How bad is it?

If you take a closer look at Shaw's last quarterly report, it reveals that at this point the tsunami of people cutting the cord is more like a slow trickle.

As of the end of May the company had 2.73 million video subscribers, split between cable and satellite television. In the nine months up to that date, it had lost 105,136 subscribers for a total loss of about 3.7%. That was partially offset by a gain in Internet subscribers, but losses in home phone subscribers also hurt. In total, a net of 119,295 subscribers dropped at least one of Shaw service over the last nine months.

The good news is these drops aren't really affecting the top and bottom lines. Revenue was up more than 4% during the nine-month period, as Shaw was successful in raising rates to its existing customers at a faster rate than it lost subscribers. A 5% increase in rates to 96% of last year's subscribers will still translate to solid gains. Earnings fell slightly to $1.23 per share for the nine-month period, compared with $1.45 last year. Last year's numbers were buoyed by one-time proceeds from a couple of cable channels it sold.

Take away the one-time event and earnings were largely unchanged.

What about growth?

The bigger issue with Shaw is how the company is going to grow.

It doesn't look as though the traditional business will be able to do much more than keep up with inflation. Shaw has a couple of growth alternatives. It could get bigger into the media world, perhaps by bringing **Corus Entertainment Inc.** (TSX:CJR.B) back into the fold. Corus shares currently trade at multi-year lows and Shaw is very familiar with the operation, spinning it off back in 2000. Additionally, two members of the Shaw family are key executives at Corus, and the family controls the voting shares of the company.

At this point, the company's business network division is just a small part of the overall picture, adding just $71 million in operating income through the first three quarters of the year. But there are ample opportunities to either acquire more customers through buying other companies, or taking market share away. Look for the business network division to have a bigger impact to the bottom line in the future.

At this point, Shaw investors almost have to treat the company as a bond. There's little in meaningful near-term growth on the company's radar, and the steady decline in cable and home phone customers has the potential to get worse. I'm not saying investors should sell their shares; rather, they should keep a close eye on them and get ready to hit the sell button once dividend growth dries up.

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