



Should Dividend Investors Buy Rogers Communications Inc. or Shaw Communications Inc.?

Description

Over the years, investors in the telecom space have been treated to a nice combination of capital gains and dividends.

But with technology threatening parts of these formerly bulletproof business, can they still be counted on? Or will a gradual loss of home phone and cable television subscribers turn into a tsunami?

Let's take a closer look at two of the leaders in the business, **Rogers Communications Inc.** ([TSX:RCI.B](#))([NYSE:RCI](#)) and **Shaw Communications Inc.** ([TSX:SJR.B](#))([NYSE:SJR](#)) to see if one, both, or neither should end up in your portfolio.

Valuation

Thanks to a recent sell-off in Shaw shares, they're trading at a fairly reasonable valuation. Over the last year, the company has earned \$1.62 per share, while shares are currently \$25.60 each. That puts the company's P/E ratio at just 15.8, which is the lowest it's been since 2013.

The stock is even cheaper on a forward P/E basis. Analysts estimate Shaw will earn \$1.80 in 2016, putting it at just 14.2 times forward earnings. That's not a bad value.

Meanwhile, Rogers trades at \$45.77, and it earned \$2.41 per share over the last 12 months. That puts it almost exactly at 19 times earnings.

On a forward basis, Rogers does get more reasonably valued. Analysts expect earnings to come in at \$3.06 per share for 2016, putting the company's forward P/E ratio at 15. That's pretty comparable to Shaw, even though Rogers looks to have much better earnings growth.

Dividends

Both of these companies have terrific dividends and a strong history of dividend growth.

Let's start with Rogers. Shares of the wireless giant currently yield 4.2%, and the payout ratio is 78.8% of trailing 12-month earnings. Over the last five years, the quarterly payout has increased from \$0.32 per share to \$0.48 per share, a 50% hike.

As good as Rogers's dividend is, Shaw's might be even better. The company's shares yield 4.6%, and it boasts a payout ratio of 73.2%. Since 2010, the company has hiked its dividend five times for a total increase of 34.7%.

Although Rogers has had better dividend growth, it's hard to ignore Shaw's better yield and lower payout ratio.

Outlook

There has been much concern from investors about Shaw's slowly shrinking base of television subscribers. It's one of the main reasons why shares of the company are trading at a 52-week low.

I'm convinced this problem is overstated. Just look at recent results for confirmation of that. In total, Shaw's revenue actually jumped 5% in the most recent quarter compared with last year's results. This is because the company made a small acquisition in the business-services sector, and because it's able to push through price increases to customers at a much faster rate than they're dropping out.

Over the last year, about 3.5% of Shaw's customers have ditched cable. If Shaw can push through a price increase of 5% to the remaining 96.5% of customers, it's still in good shape. That is exactly what it's doing.

Meanwhile, Rogers is hurting because of weak wireless growth. Rogers has spent billions beefing up its network by buying new spectrum, yet it hasn't seen any gains in market share. In fact, it's slowly losing top spot to **Telus**, and hasn't really grown wireless revenue since 2012.

But Rogers is making up for it in other ways. It should show some nice growth in its media division, as the company-owned Toronto Blue Jays are immensely popular right now. It also has NHL hockey coming up. Those are both good draws in a media market that's becoming more saturated by the day.

There's an argument to be made for buying both Shaw and Rogers at these levels. But I like Shaw just a little more because of the higher yield, the better valuation, and the fact shares are at a 52-week low.

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