Income Investors: Now’s the Time to Buy Shaw Communications Inc. Shares

Description

Shares of **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) have been weak lately because of a couple of factors.

The first thing is the state of the overall market. As the TSX Composite fell, so did Shaw, which isn’t entirely surprising. The big reason for the overall market falling was the weakness in crude and other commodities. Shaw operates mostly in western Canada, an area known for its exposure to the energy and basic materials sectors.

There’s also a very company-specific problem hurting Shaw. Young consumers are migrating away from traditional television, choosing to watch their favourite shows by streaming them over the Internet. Additionally, the CRTC has mandated that beginning in 2016, Canadian consumers will be able to pick and choose their cable channels, rather than be forced to buy a bundle to get the one channel they like.

Investors worried about these two factors have sent shares reeling from a high of nearly $32 at the beginning of the year to just over $26 now, even though the company’s underlying fundamentals have been rock solid. Earnings have even gone up year over year.

The future for cable

Perhaps I’m too optimistic, but I don’t see the cable business going away anytime soon, no matter how much people predict that happening.

Take a look around you for confirmation. My parents like having cable. They can easily afford the $60-70 monthly bill, and it provides great entertainment without having to leave the house. Plus, they’re a little uncomfortable with the idea of watching video through the Internet.

There are nearly 10 million baby boomers in Canada, and most of them are very happy with watching television through traditional means.

Then there’s folks with young kids. After putting the kids to bed, there isn’t much else to do besides sit on the couch and watch television. And channels like Treehouse or YTV are lifesavers for parents. All of the parents I know in their 20s and 30s love having cable.

Really, the only part of the population that's getting rid of cable in a major way are the folks under 30. They've grown up with the Internet as a primary source of entertainment. It's only natural they'd be comfortable watching the majority of their videos on it.

In short, I think cable will continue to have a major role in entertaining Canadians. Cable subscribers might keep on slowly declining, but the medium will still be a big deal.

The case for Shaw

Looking closer at Shaw specifically, we see a small decline in cable subscribers, which is more than made up with increasing prices to current subscribers.

Through the company's first nine months of its fiscal 2015 (which ended May 31), it told investors it lost a little over 105,000 subscribers out of a total of approximately 2.85 million. That's a loss of about 3.5%.

And yet the company's total revenue was actually up more than 4% during the same period. This is because of strong growth in business network services, and because it was successful in passing through price increases to cable and Internet customers.

Analysts are relatively bullish for next year, too. Earnings are expected to come in at $1.80 per share in 2016, which is an increase of more than 10% compared with the last 12 months.

Then there's the terrific dividend. Shaw pays investors a $0.09875 per share monthly dividend, which works out to a 4.5% yield annually. Shaw also has a great history of growing the payout, boosting it by almost 35% over the last five years.

The days of Shaw being a big growth business are likely over. But the company can still be an attractive part of any portfolio. The generous yield and strong moat around the business makes Shaw a good choice. Maybe it's time to pick up this temporarily beaten-up stock while the market hates it.

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2. Investing

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1. Editor's Choice

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Date
2025/09/09
Date Created
2015/10/12
Author
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