Shaw Communications Inc. Posts Another Strong Quarter: Is Now the Time to Buy?

Description

Shaw Communications Inc. (TSX:SJR.B)(NYSE:SJR), one of the largest telecommunications and media companies in Canada, announced very strong fourth-quarter earnings results on the morning of October 22, but its stock has responded by falling over 1%. Let's take a closer look at the results to determine if we should consider using this weakness as a long-term buying opportunity, or if we should wait for an even better entry point in the trading sessions ahead.

A strong quarter of top- and bottom-line growth

Here's a summary of Shaw's fourth-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Q4 2015 Actual	Q4 2015 Expected	Q4 2014 Actual
Earnings per share	$0.57	$0.42	$0.40
Revenue	$1.34 billion	$1.35 billion	$1.26 billion

Source: Financial Times

Shaw's earnings per share increased 42.5% and its revenue increased 6.3% compared with the fourth quarter of fiscal 2014. The company's very strong earnings-per-share growth can be attributed to its net income increasing 43.8% to $276 million, driven by higher operating income and a one-time gain on the sale of spectrum licences.

Its strong revenue growth can be attributed to growth in all of its operating segments, including 0.2% growth to $938 million in its consumer segment, 7.3% growth to $133 million in its business network services segment, and 0.4% growth to $232 million in its media segment.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Operating income before restructuring costs and amortization increased 9.1% to $573 million
2. Operating margin expanded 110 basis points to 42.7%
3. Funds flow from operations decreased 2% to $384 million
4. Free cash flow decreased 75.5% to $35 million
5. Total consumer subscribers decreased 3.8% to 5.38 million
6. Total business network services subscribers increased 3.3% to 572,096

Should you buy shares of Shaw on the dip?

Shaw posted very impressive top- and bottom-line growth in the fourth quarter, so I think its stock has reacted incorrectly by moving lower. With this being said, I think the decline represents nothing more than a long-term buying opportunity, especially because the stock now trades at more attractive forward valuations, and because it is one of the top dividend stocks in the market.

First, Shaw's stock now trades at just 14.8 times fiscal 2015's earnings per share of $1.80 and only 14.7 times fiscal 2016's estimated earnings per share of $1.82, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 16.4 and its industry average multiple of 20.3.

I think Shaw's stock could consistently command a fair multiple of about 18, which would place its shares upwards of $32.75 by the conclusion of fiscal 2016, representing upside of more than 22% from today's levels. This projection is very reasonable given that its 52-week high is $31.93, and this was reached back in December 2014.

Second, Shaw pays a monthly dividend of $0.09875, or $1.185 per share annually, which gives its stock a bountiful 4.4% yield. It has also raised its dividend for 12 consecutive years, making it one of the top dividend-growth plays in the market today, and its ample free cash flow generation, including $653 million in fiscal 2015, could allow this streak to continue in 2016.

With all of the information provided above in mind, I think Foolish investors should strongly consider using the post-earnings drop in Shaw Communication's stock to begin scaling in to long-term positions.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:SJR (Shaw Communications Inc.)
2. TSX:SJR.B (Shaw Communications)

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