Income Investors: Get a 7.5% Yield From Shaw Communications Inc.

Description

For many investors, getting the best possible yield today is paramount. This is especially true for folks who are retired.

In today's world of low interest rates, it's tougher and tougher to get secure income. Investors have gone to the stock market as a result, ready to take on a little risk in exchange for dividends that are much more generous than yields on GICs or government bonds.

One such stock is **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR). Investors especially like the stickiness of the company's revenue. Things like Internet, cable, and home phone are about as dependable as businesses get. Yes, there is a slow decline in both the television and home phone businesses, but they've been largely offset by increases in Internet subscribers, an increase in services to business, and pushing price increases to existing customers.

Plus, Shaw is still posting decent numbers. It recently posted full-year 2015 numbers, which featured revenue that went up 4.7% and net profit which was largely flat compared with the year before, but would have been up without one-time charges.

And most importantly for dividend investors, it showed that the dividend is still very sustainable. Over the year, Shaw paid $1.14 per share in dividends, while earning $1.79. That's a payout ratio of just under 64%, which is relatively low for a stock that currently yields 4.3%.

But what if there was a way you could increase your income from Shaw, collecting a 7.5% yield for the next eight months and then a decent yield afterwards?

It's easy. That's exactly the situation investors are getting with Shaw preferred shares.

Prefer the preferred

The Shaw preferred shares (ticker symbol SJR.PR.A) are relatively simple. They're called rate reset preferreds, which means on June 30th, 2016, they'll reset to an interest rate of the Government of Canada three-month Treasury bill rate, plus 2%. Based on the original $25 issue price, that works out to a yield of approximately 2.4%.

But these shares are far under the issue price. They currently trade hands for just $14.67, a full 41% below the $25 per share par value. Which means you're looking at a 4.3% yield going forward if interest rates stay where they are today.

If the common shares yield 4.3% and have a history of growing the payout by 5% or so, why would the preferred shares at the same yield be a better deal?

Firstly, you get a very attractive yield for the next eight months. The yield offered for the next three quarterly payments is 7.5%, enough to push the average yield for the whole investment up to 5.4% over three years. That easily beats the dividend for the common shares.

Secondly, these preferred shares offer protection against rising rates. If the Federal Reserve or Bank of Canada hikes rates between now and mid-2016, the rate for Treasury bills will go up, which will increase the yield for these shares.

And finally, there's the interesting option offered every five years. In 2016 and every five years after that, Shaw has the option to redeem these shares at the full $25 per share par value. A redemption looks very unlikely in 2016, because these shares are a very cheap form of capital. But in five more years, who knows. The company redeeming the shares would be a nice capital gain to go along with a decent income choice.

There's also the ability to trade these shares. If you can get a dividend yield of 5.4% over three years and then be up 10% on the value of the preferred shares, that's a very solid overall return, especially for a product designed to be less risky than other income options.

Ultimately, the real value in these shares is the attractive dividend over the next eight months. Getting 7.5% annualized is nothing to sneeze at, especially in a company that's as secure as Shaw Communications. It doesn't quite compare to GICs in terms of risk profile, but it's pretty darn close.

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

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