Is Shaw Communications Inc. Still a Good Dividend-Growth Stock?

Description

The struggles of Canada's largest cable companies have been well documented.

The big issue is with cord cutting. As more folks move into a world where television is consumed online, it's obvious the change will affect revenues for the cable providers. Most of these companies are diversified businesses, so at least they're making up some of the difference by selling many of the same customers Internet and, in certain cases, wireless plans.

Shaw Communications Inc. (TSX:SJR.B)(NYSE:SJR) is perhaps the poster child of this trend. Unlike larger competitors like **Rogers** and **BCE**, the company doesn't have a wireless division to help make up for the decline in television subscribers. Shaw's Internet division is helping, but the company is also dealing with a decline in home phone subscribers.

Two out of three revenue sources moving backwards usually isn't the recipe to long-term success.

Will Shaw be able to survive this oncoming trend? And, more importantly for income investors, will it be able to keep its record of more than a decade of consecutive annual dividend increases intact? Let's take a closer look.

The business

Considering all the talk about the death of the cable television business as we know it, you'd think Shaw would be posting pretty lacklustre results. But earnings have been solid.

Shaw recently reported its full-year 2015 results. Revenue was up 4.7% compared with 2014 thanks to strength in business subscribers and the residential Internet division. Many cable cutters take some of the money saved and use it to spring for a faster Internet connection.

While the company did lose some 5% of its video subscribers, it was able to push through a price increase to its existing customers to help make up for the loss. And at least the loss of video customers isn't accelerating much–last year saw a decline of 120,000 cable and satellite customers, or about4.5%.

Earnings were down ever so slightly in 2015, coming in at $1.79 per share compared to $1.84 per share in 2014. This year's earnings were affected by higher depreciation expenses as well as some one-time charges.

Shaw didn't provide earnings guidance for the upcoming year, but it did tell investors it expects free cash flow of between $665 and $680 million in 2016, which works out to between $1.41 and $1.44 per share. That would be a slight increase over what the company posted in 2015.

Although Shaw's earnings look pretty solid in the near term, the company needs the trend of cord cutting to slow considerably for it to increase earnings in a meaningful way. Either that or it needs to expand into a new line of business that is actually growing.

What about the dividend?

It's pretty obvious that Shaw's current 4.5% dividend is pretty safe. The company paid out $1.18 per share in dividends over the last year while earning $1.79 per share. Even from a free cash flow standpoint, it still easily covers the dividend.

The issue is the future of Shaw's dividend growth. Over the last five years, Shaw has grown its monthly dividend from $0.88 per share annualized to $1.18 per share. That's a growth rate of 6% annually.

If earnings only go up 2-4% per year and the dividend grows at 6%, eventually Shaw shareholders will run into a situation where the dividend is more than earnings. At the current pace, it'll take at least a decade for this to be an issue–thanks to the moderate payout ratio–but the risk exists. If earnings don't grow or even decline slightly, the company might make the decision to stop growing the dividend altogether.

At this point, it looks as though Shaw can continue growing the dividend at the same pace that it has for the last five years. And the company could make a number of changes to help grow earnings, like bringing **Corus Entertainment** back into the fold. But unless earnings start growing faster than the rate of inflation, eventually dividend growth will hit a brick wall.

Fortunately for Shaw's management, they should have years before this happens. It's not exactly time for management or investors to hit the panic button–yet.

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