



After its Very Busy Week, Is Shaw Communications Inc. a Buy?

Description

Shaw Communications Inc. ([TSX:SJR.B](#))([NYSE:SJR](#)), one of Canada's largest diversified communications and media companies, has had a very busy week. It kicked things off on Tuesday by announcing the sale of its media business and declaring its dividends for the months of March, April, and May, and it capped things off by announcing its first-quarter earnings results on Thursday.

Let's take a closer look at its earnings results, then break down its sale and its dividends, so we can determine if we should be long-term buyers of the stock today.

Breaking down Shaw's mixed first-quarter results

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

Metric	Q1 2016 Actual	Q1 2016 Expected	Q1 2015 Actual
Earnings Per Share	\$0.43	\$0.48	\$0.46
Revenue	\$1.42 billion	\$1.42 billion	\$1.39 billion

Source: *Financial Times*

Shaw's earnings per share decreased 6.5% and its revenue increased 2.2% compared with the first quarter of fiscal 2015. The company's slight decline in earnings per share can be attributed to its net income decreasing 4% to \$218 million, primarily due to higher income taxes and amortization.

Its slight increase in revenue can be attributed to its revenues increasing in three of its four major segments, including 1.7% growth to \$943 million in its consumer segment, 7.1% growth to \$136 million in its business network services segment, and 32.7% growth to \$73 million in its business infrastructure services segment.

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

1. Revenue decreased 4.2% to \$294 million in its media segment
2. Operating income before restructuring costs and amortization increased 3.3% to \$626 million
3. Operating margin improved 50 basis points to 44.1%
4. Funds flow from operations increased 3.6% to \$406 million
5. Free cash flow decreased 10.4% to \$173 million
6. Total consumer and business network services subscribers decreased 3.6% to 5.91 million

Selling its media business to fund its purchase of Wind Mobile

On January 13, Shaw announced the sale of its Shaw Media Inc. division to **Corus Entertainment Inc.** for \$2.65 billion. Shaw will receive \$1.85 billion in cash, which it will use to finance its acquisition of Wind Mobile Corp., and it will retain an interest in the media sector through a holding of approximately 71 million class B non-voting shares of Corus, or about 39% of the pro-forma common equity of Corus.

Dividends? Yes, please

Also, on January 13 the company declared monthly dividends of \$0.09875 per share, payable on March 30, April 28, and May 30 to shareholders of record at the close of business on March 15, April 15, and May 13, respectively.

What should you do with Shaw's stock today?

It was a decent quarter at best for Shaw, but I think its stock is a strong buy today for three reasons in particular.

First, its pending sale of Shaw Media and its pending acquisition of Wind Mobile will both positively impact its long-term growth potential. To elaborate, its sale of Shaw Media will not only rid itself of its one segment that reported negative growth in the first quarter, but it will provide capital to finance its acquisition of Wind Mobile, which will make it a major player in the mobile communications industry and complement its existing fibre and Wi-Fi infrastructure.

Second, without even factoring in its sale of Shaw Media and its acquisition of Wind Mobile, Shaw's stock is very undervalued, trading at just 14.1 times fiscal 2016's estimated earnings per share of \$1.75, which is very inexpensive compared with its five-year average price-to-earnings multiple of 15.8.

Third, Shaw pays an annual dividend of \$1.185 per share, which gives its stock a 4.8% yield. Investors must also note that the company has raised its annual dividend payment for 12 consecutive years, and its 7.7% increase in March 2015 puts it on pace for 2016 to mark the 13th consecutive year with an increase.

With all of the information provided above in mind, I think all Foolish investors should strongly consider beginning to scale in to long-term positions in Shaw Communications today.

CATEGORY

1. Dividend Stocks

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

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