



Shaw Communications Inc.: A Great Forever Stock at a Bargain Price

Description

At the end of 2014 **Shaw Communications Inc.** ([TSX:SJR.B](#))([NYSE:SJR](#)) shares were riding high, comfortably over \$30 each as investors were bullish on the company's predictable income, solid dividend growth, and good economic numbers in Alberta, its home base.

Oh, what a difference a year can make. Shaw shares had a brutal 2015 as investors started to get nervous about the company's steadily declining television customer base, real weakness in Alberta, and doubts about whether or not the company's planned acquisition of Wind Mobile is a smart move. Shares ended 2015 at approximately \$23 each, a decline of some 25%.

That's a big drop, especially for a stock that's considered to be conservative.

There are many investors who are surprised the drop hasn't been more. Shaw is consistently losing television customers as many people decide they'd rather exclusively use sources like **Netflix** for their media consumption. And with the CRTC mandating that cable providers must start offering lower-cost packages starting March 1, there's fear that customers could really start to wise up and look for better options.

But is reality really so bad? I think Shaw has much more going for it than many investors realize.

Great moats

If Shaw's main business is slowly declining, then how did the company manage to increase its total revenue by some 5% in fiscal 2015?

It's simple. Shaw has pricing power. Sure, a small percentage of customers ditched cable and have no intention of going back, but the vast majority of customers stayed, content with watching television the same way they have for years.

Television is still a cheap form of entertainment. For \$2 per day, you can get access to hundreds of different channels covering every subject under the sun. For people who spend a lot of time at home during the evenings, there's value in that.

Because Shaw has pricing power, it's able to push through price increases to existing customers. Sure, those increases probably contributed to some of the cord cutters finally leaving for good, but the company is still gaining if it can push through a 5% increase to 98% of its customers. The 2% loss is nothing to sweat about.

And the other thing is that folks who cut their television services usually make great Internet customers. It's easy to spend another \$10 or \$20 per month on faster Internet when you've just cut a \$60 per month television bill.

Shaw is still a telecommunications powerhouse in western Canada. And with the acquisition of Wind Mobile scheduled to close sometime in the next few months, Shaw will soon have another service to offer its customers. Being owned by Shaw will automatically give Wind more legitimacy, which should also help it acquire more customers.

Great valuation

Currently, Shaw trades at just 12 times trailing earnings. But since Shaw plans to sell its media division to help it pay for the Wind acquisition, we can't expect it to replicate those earnings in 2016.

Analysts think 2016's earnings will take a hit, but not exceptionally so. Earnings are expected to come in at \$1.72 per share for the year. In 2015 Shaw earned \$1.79 per share, but that was adversely affected by a \$73 million charge. So it seems like Shaw will take a bit of a short-term earnings hit from its move out of media and into wireless.

Even if earnings decline a bit in 2016, Shaw shares still look to be a reasonable value today. At a current price of \$22.50 each, Shaw still trades at just 13.1 times projected 2016 profits. That's a nice discount compared with its peers in the telecom space, who trade at approximately 16-18 times earnings expectations.

And then there's the dividend. Shaw shares currently yield 5.3%, which is about as high as they've ever been. With a payout ratio of 69% of projected 2016 earnings, the dividend looks to be on solid footing. One note of concern is that the company hasn't yet announced an increase in the 2016 payout, which has traditionally happened in February. Dividend investors will want to pay close attention to that.

Canadian investors who buy telecoms at 52-week lows have usually been handsomely rewarded in the past. I see little reason why that trend won't continue for investors looking to buy at today's depressed price.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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Date

2025/07/08

Date Created

2016/02/12

Author

nelsonpsmith

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