3 Simple Reasons Investors Should Buy Shaw Communications Inc.

Description

I firmly believe **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) is one of the most underrated stocks on the TSX.

There are a few reasons for this. The biggest one is the trend towards cutting the cable cord. Millennials are a huge challenge, choosing to eschew expensive television packages for a combination of Youtube, **Netflix**, and **Apple** TV.

Since so much of Shaw's revenue comes from television subscribers, it has become the stock investors love to hate. It trades at a persistently lower valuation than its telecom peers and has the highest dividend yield. The pessimism is reflected in the stock price.

I'm not one of those people. I believe Shaw's management team has been making some nice moves–moves that ensure the company will not only survive cable's inevitable decline, but thrive. Here are three reasons why.

A growth story again

For years, Shaw was viewed as sort of a bond proxy. The business grew a bit, but it wasn't because of organic growth. It was because of price increases passed on to existing customers.

In December the company made headlines for agreeing to acquire Wind Mobile, Canada's fourth-largest wireless company. The move was perplexing because Shaw's management had nixed the idea of the company entering the wireless market just a few years before, even going as far as selling the spectrum acquired to existing players.

There are plenty of reasons why Shaw chose to buy Wind. It is an established player. There are opportunities to sell Wind services to existing Shaw customers. And there is definitely potential for the brand to grow beyond its roots in Toronto, Calgary, and Vancouver.

To pay for the Wind acquisition, Shaw sold its media assets to **Corus Entertainment** for $2.65 billion, a number at least one prominent Corus shareholder thought was too much. The move to get out of the media business was generally viewed as a positive one, since the sector is suffering from sluggish advertising spending and uncertainty about the future of television.

With two big moves, Shaw transformed its business into a pure content delivery business, a strategy which should result in better growth and more consistent margins than before.

Growth at a cheap price

Shaw shares currently trade hands at approximately 14 times trailing earnings. This is much cheaper than its peers, which all trade in the 18-20 times earnings range.

Shaw's earnings are projected to decline slightly over the next two fiscal years, however. Analysts project profit will come in at $1.70 per share in 2016, dropping even further to $1.57 per share in 2017. Analysts like Wind's growth profile; they're just not sure how the new acquisition will boost the bottom line.

Even with earnings of just $1.57 per share–a number I believe is probably a little pessimistic–Shaw still trades at less than 16 times forward earnings. And remember, revenue growth should be higher than the 3-4% the company has been able to achieve over the last few years.

That dividend

It looks as though the days of Shaw being a major dividend-growth stock are over. The company used to deliver double-digit yield growth on an annual basis. Going forward I'd say investors should only expect perhaps 3-5% yearly dividend raises.

Shaw's current yield is 4.8%, which is a terrific payout in a world where so-called high interest savings accounts pay less than 1%. And even during a temporary dip in earnings, the dividend will easily be covered by earnings.

It might take years for Shaw to truly integrate Wind. It's important for investors to get paid to wait, just in case the stock doesn't head higher in the meantime. Think of the dividend as an insurance policy.

In a telecom world dominated by three big players, Shaw doesn't get much attention. That could start to change. Will you be left on the sidelines if that happens?

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