Shaw Communications Inc.'s Q2 EPS Falls 5.9%: What Should You Do Now?

Description

Shaw Communications Inc. (TSX:SJR.B)(NYSE:SJR), one of the leading pure-play connectivity providers in Canada, announced its second-quarter earnings results this morning, and its stock has responded by falling nearly 2%. Let's take a closer look at the results and the fundamentals of its stock to determine if this decline represents a long-term buying opportunity or a warning sign.

Breaking it all down

Here's a summary of Shaw's second-quarter earnings results compared with its results in the same period a year ago.

Metric	Q2 2016	Q2 2015
Earnings Per Share From Continuing Operations	$0.24	$0.28
Revenue	$1.15 billion	$1.12 billion

Source: Shaw Communications Inc.

Shaw's earnings per share from continuing operations decreased 5.9% and its revenue increased 3% compared with the second quarter of fiscal 2015. The company's slight decline in earnings per share can be attributed to its net income from continuing operations decreasing 14.1% to $116 million, primarily due to higher operating, general, and administrative expenses.

Its slight revenue growth can be attributed to its revenues increasing 6.2% to $137 million in its Business Network Services segment and 48.3% to $89 million in its Business Infrastructure Services segment, and this growth was only partially offset by its revenues decreasing 0.3% to $934 million in its Consumer segment.

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

1. Operating income before restructuring costs and amortization increased 0.8% to $502 million
2. Operating margin contracted 90 basis points to 43.6%
3. Funds flow from operations increased 11.7% to $363 million
4. Free cash flow decreased 29.6% to $119 million
5. Total consumer and business network services subscribers decreased 3.5% to 5.85 million

Should you buy shares of Shaw on the dip?

The second quarter was far from impressive for Shaw, so I think the slight decline in its stock is warranted. However, I also think the decline represents a great long-term buying opportunity for two reasons.

First, Shaw completed its acquisition of WIND Mobile on March 1, making it the fourth-largest wireless provider in Canada, and it completed its sale of Shaw Media on April 1, making it a pure-play connectivity provider. The company stated that it believes these two "transformative transactions" position it for long-term growth, and I fully agree. The stock also trades at just 15.2 times fiscal 2016's estimated earnings per share of $1.57, so it can be considered both a value and growth play.

Second, it has a great dividend. Shaw pays an annual dividend of $1.185 per share, which gives its stock a high and safe yield of about 5%. It is also very important to note that it has raised its annual dividend payment for 12 consecutive years, and its 7.7% hike in March 2015 has it on pace for fiscal 2016 to mark the 13th consecutive year with an increase.

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

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Date
2025/09/09
Date Created
2016/04/14

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