Is Shaw Communications Inc. Still a Great Forever Stock?

Description

There are a lot of reasons to like the telecom business.

Perhaps the best part is the recurring revenue. Most people will give up a lot of things before they give up their mobile phone or internet package, and staying connected in today's world has become more important than ever. How many people do you know without a cell phone or the internet at home?

This appears to be good news for **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR), one of western Canada's largest telecom providers. The company supplies home phone, internet, television, and most recently through its acquisition of Wind Mobile, wireless service to millions of Canadians.

Lately, though, cracks have begun to appear in Shaw's armour. The company was already losing home phone subscribers at a fairly rapid pace as folks realized having both a home and cell phone was redundant. It's now suffering a decline in cable subscribers as customers are cutting paid TV in the thousands, content to watch television through online services.

Knowing this, is Shaw still a great forever stock? Let's take a closer look.

Recent results

Looking at recent results will help reveal an interesting truth about Shaw's business.

In the company's most recent quarter, it reported a 13% increase in revenue, mostly from its acquisition of Wind Mobile. That was countered by a 3.1% decrease in operating margins from 46.4% to 43.3%. Overall, excluding gains from discontinued operations, the company made $0.11 per share in the quarter compared to $0.28 per share in the same quarter last year.

Television subscribers continue to slow tick down. The company had 2.49 million TV subscribers on May 31, the end of its most recent quarter. That compares to 2.57 million on August 31, 2015. Home phone customers were also down from 1.03 million to 975,705 in the same time period. The only increase was in internet subscribers, which increased marginally.

And yet, even after those somewhat tepid numbers, revenue increased 2% even before factoring in the uptick from the new wireless division.

Shaw can do this because it's able to pass on price increases to its existing customers. We all might grumble when the price of cable goes up, but, for the most part, we just continue to pay our bill.

Dividend-growth potential

Shaw has a nice dividend yield of 4.5%. But where the company has really shined in the past is its dividend growth.

From 2005 to 2015 the company raised its dividend every year, increasing the payout from 1.16 cents per share per month to 9.875 cents per month. That's extraordinary growth.

Unfortunately, it looks as though this growth has at least paused. With Shaw's move into the wireless sector, it looks unlikely to keep up its dividend-growth pace of the last decade. Essentially, it exchanged better margins for better growth.

That might be good news for the company in general, but it's bad news for dividend-growth investors.

Outlook

Analysts are somewhat bearish on Shaw's earning potential going forward with estimates of $1.35 per share of earnings for 2016 and $1.43 per share of net income for 2017. This puts shares at 19.5 and 18.4 times forward earnings, respectively.

This valuation is approximately the same as its peers. The only problem with that is all of Canada's other telecoms look poised to increase their dividends. If Shaw does hike its payout, I don't think it'll be as much as its peers.

Should you buy?

Shaw is a world-class company that is going through a transition period. Its foray into wireless should pay off in the long term but will likely eat into earnings over the next few years. Wireless is a competitive area, and margins reflect that.

Investors who buy the company today will likely end up fine, but for me personally, I would rather wait for a lower price to add to my preferred-share position with common shares.

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1. Dividend Stocks
2. Investing

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