Shaw Communications Inc.: A Monthly Dividend Stock With Big Upside Potential?

Description

Income investors are normally more concerned with yield than capital gains, but once in a while you get a shot at both.

Let's take a look at **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) to see why it might be an attractive pick right now.

Big changes

Shaw is in the middle of a major transition. Investors are sitting on the sidelines, waiting to see if the strategy shift will bear fruit.

What's going on?

Shaw had long maintained that it wasn't interested in being pulled into the Canadian mobile phone wars. The argument was that the costs of building a competitive network would simply be too big a risk in a market that already has three established players.

Well, that was the line of thinking until Shaw purchased Wind Mobile earlier this year and threw its hat in the ring.

In order to pay for the Wind Mobile acquisition and help fund the network expansion, Shaw sold its media assets to **Corus Entertainment**.

The moves caught many analysts off guard, and the jury is still out on whether or not the decisions will pan out, but I think investors will eventually see the benefits.

Why?

Shaw realized most Canadians want to get their TV, internet, and mobile phone services from a single supplier on bundles packages. Not having the mobile offering meant Shaw was losing internet and TV subscribers to the competition. With cable operators already facing a massive wave of cord cutting, Shaw really had no option but to jump into the mobile game.

Unloading the TV network, specialty channels, and radio stations might also prove to be a wise decision.

Canadians now have the option to subscribe to a basic TV package and add channels on a pick-and-pay basis. This means content owners of unpopular shows could see revenue slide under the new program. It's still too early to tell how things will turn out under the new system, but getting out of the content business might have been a good idea.

Dividend stability

Shaw pays a monthly dividend of $0.09875 per share. The distribution hasn't increased this year, but investors should see a return to growth once all the dust settles on the transition process.

The company had free cash flow from continuing operations of $152 million in the quarter and paid out $100 million in dividends, so there is room for a hike in the payout.

Investors who buy today can get an annualized yield of 4.5%.

Should you buy?

Shaw reported decent fiscal Q3 2016 results, given all the distractions. Wireless subscribers already total more than one million and Shaw is making progress on its mobile network initiatives.

The stock has missed out on the big rally in the telecom sector, but I think Shaw will move higher once the transition is complete. In the meantime, the dividend looks safe, and Shaw should start to increase it again in the next 12-18 months.

If you have some cash sitting on the sidelines, Shaw might be a good bet right now.

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1. Editor's Choice

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