Income Investors: Is Shaw Communications Inc. the Best Telecom for 2017?

Description

Shaw Communications Inc. (TSX:SJR.B)(NYSE:SJR) is going to start to have a major impact on the Canadian wireless industry this year as the company's wireless segment Freedom Mobile starts taking market share away from the Big Three telecom incumbents.

The company has made very few investments in its subscriber acquisition or distribution thus far. It's clear that Shaw's focus remains on improving the wireless network first and then working on gaining subscribers. Marketing initiatives to grow subscribers is expected to ramp up later in the year.

There's no question that Freedom Mobile can't compare to the Big Three telecom giants in terms of network performance right now. Freedom will try to improve its infrastructure, so it reaches a point where its network performance offers terrific value to the customer since Freedom Mobile is expecting to remain a discount carrier.

It's no mystery that Canadians pay some of the highest wireless fees in the world, and the CRTC has been pushing hard for another telecom giant with a decent wireless network that can offer rates that are reasonable and fair. Freedom Mobile is this fourth option, and I believe it could disrupt the Canadian telecom scene in a big way. Canadians have been fed up with the Big Three wireless carriers and their controlled prices for a very long time. Freedom Mobile is a breath of fresh air to the average consumer.

Freedom Mobile expects a huge LTE upgrade that is scheduled to be finished in the fall of 2017. When that time comes, Freedom Mobile will have a lot more phone choices that work on its AWS-3 wireless spectrum. By this time, I believe Shaw will ramp up its marketing campaign, and we could see subscriber growth surge in the latter part of this year.

Freedom Mobile will offer the perfect balance between network performance and affordability. This is something that Canadians have always wanted. We could see subscribers leave the Big Three for Freedom Mobile, and this will result in huge capital gains as well as dividend increases for Shaw shareholders over the next three years and beyond.

Shaw currently offers an attractive 4.35% dividend yield, which could grow by leaps and bounds over the next decade. Shaw faces the biggest upside in the telecom space over the next few years, and for this reason I believe Shaw is a dividend-growth superstar in the making.

The stock is ridiculously undervalued right now. The price-to-book ratio is at 2.1, which is lower than its five-year historical average multiple of 2.5. The price-to-sales and price-to-cash flow are in line with historical averages, but I expect these multiples to drop even further next year as Freedom Mobile starts gaining subscribers.

If you're an income investor looking for a safe and growing yield, then Shaw is your best bet. There's a huge margin of safety right now since the stock is very attractively priced. If you're an investor with a long-term time horizon, then pick up shares now and collect the bountiful yield as the company makes its mark in the Canadian telecom scene.

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