This Underrated Dividend Stock Could Be Set to Soar

Description

Shaw Communications Inc. (TSX:SJR.B)(NYSE:SJR) is a silent underdog in the Canadian telecom scene. Although Shaw is a shareholder-friendly company with an attractive dividend yield, many income investors have passed on the company for one of the Big Three incumbents. The Big Three telecoms pretty much have an oligopoly in the Canadian wireless space, so the dividend is one of most stable on the TSX, and this offers peace of mind to shareholders.

Just because the Big Three telecoms are larger doesn't mean they're the superior choice for income investors. Shaw has been investing heavily in improving its wireless infrastructure, and over the next few years, I think Shaw will be well positioned to become a major player in Canada's telecom scene.

Sure, Shaw's wireless business, Freedom Mobile, won't be the best network available, but it'll definitely give the Big Three incumbents a run for their money. The management team has made it clear that Shaw will keep prices lower, even though the company is spending a lot to improve the current infrastructure.

Canadians are paying way too much for their wireless bills, and until now there have been few alternatives to the Big Three. This is a huge opportunity for Freedom Mobile to grab market share away from its Big Three competitors as the company aims to find the perfect balance between performance and affordability.

Shaw is finishing its latest LTE network roll-out, which is expected to support the wireless bands for the new wave of popular phones like **Apple Inc.**'s iPhone 8 and Samsung's Galaxy S8. When Q4 2017 comes around, it's expected that the company will increase spending on marketing initiatives. Freedom Mobile will be ready, and I believe subscriber growth will surge through the roof.

Shaw is an underdog, and it has a long way to go to catch up to the Big Three incumbents when it comes to wireless infrastructure. For these reasons, many investors may be favouring the Big Three telecoms over Shaw because they believe they're taking less risk with a larger telecom. I think the contrary is true. Shaw's Freedom Mobile is growing quickly, and it's going for the customer base of the Big Three telecoms.

Shaw currently trades at a 33 price-to-earnings multiple, a 2.7 price-to-sales multiple, and an 8.8 price-to-cash flow multiple, all of which are considerably higher than the company's five-year historical average multiples of 15.2, 2.2, and 7.5, respectively. While the company may seem expensive based on these metrics, the price-to-book multiple is actually in line with historical averages at 2.5, and I believe the tailwinds from the wireless segment are worthy of a premium.

If you're an income investor looking for solid, long-term dividend growth, then Shaw Communications is a fantastic buy. Buy shares now and hold them for the next five years while you collect the bountiful dividend.

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