Dividend Investors: Which Canadian Telecom Stock Is a Better Buy?

Description

Income investors in search of higher yields can find a good value in Canadian telecom stocks.

Telecom companies in Canada are safe, operate in a less competitive environment, and have reliable histories of paying dividends.

But before you put your hard-earned dollars in buying any stock, you should always consider the future threats to that business, the industry landscape, and changing consumer preferences.

This is particularly important for telecom operators who have been struggling to keep up with the ever-changing technologies and consumer preferences. As subscriber growth has dwindled in their fixed-line and cable TV segments, telecom companies are investing heavily in wireless technologies to grab the market share in this crucial battle.

In Canada, the telecom market is divided among four players which control about 80% of the broadband and video market and more than 90% of the wireless market. This is a huge advantage for investors who are looking for opportunities in the telecom space in North America. Unlike the U.S., where competition is much fierce and the regulatory environment is friendly for new entrants, the Canadian telecom market is dominated by the “Big Three.”

On this side of the border, **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) is my favourite pick for dividend investors. In recent years, this smaller player has set the stage for its future growth. Through its recent moves, including its $1.6 billion acquisition of Wind Mobile last year and the $2.3 billion sale of its data centre business last month, the company has shown investors that it has a plan to challenge the dominance of **BCE Inc., Rogers Communications Inc. and Telus Corporation**.

Growth drivers

As its recent deals show, Shaw plans to invest heavily to improve the quality of its wireless network. Its re-branded cellular operator Freedom Mobile, previously known as Wind Mobile, has quality issues that are stopping new customers signing up, despite its competitive rates.

Last month, Shaw announced that it plans to buy low-band spectrum licences, the 700 MHz and 2,500 MHz radio frequencies, which are essential for a better network quality and coverage.

Once its network is upgraded and coverage issues are resolved, Shaw will be in a much better position to tap into the growing market of wireless subscribers.

Dividend potential

Shaw stock is trading 9% down from the 52-week high it achieved last month. I feel this is a good entry point for dividend investors who want to take advantage of the company's growth potential and its rising dividend payouts.

At its current share price of $27.6, Shaw offers a 4.18% annual dividend yield. Over the last decade, Shaw has been one of the best dividend payers, almost doubling its monthly dividend to $0.09875 per share.

I don't think Shaw will deviate from its history of increasing dividends, especially at a time when it's adding more subscribers to its wireless network and cable business and generating more cash.

Considering the growth potential of Shaw's business and the stability of its dividend, I think this company offers a good value for income investors when compared to more mature operators in this space.

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