Shaw Communications Inc.: Should You Bet on the Little Guy?

Description

It's well known that there are three major wireless providers in Canada fighting for your subscription dollar. But, as in most markets, there is a play by the little guy to attempt to usurp these incumbents. And that little guy is **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR). Although it has a market cap of nearly $14 billion, when it comes to wireless service, it's small.

Unlike the Big Three, it was very late to offer wireless service to its customers. But in March 2016, Shaw closed its $1.6 billion acquisition of Wind Mobile Corp., adding 940,000 wireless customers in Ontario, British Columbia, and Alberta. The company doubled down on its wireless bet when it exited the media business entirely by selling that division to **Corus Entertainment Inc.** for $2.65 billion.

Shaw had decided that it was better to be in the wireless business, which the CEO called a "missing piece" of the company's strategy. To be fair, Shaw does own 39% of all Corus's stock, but the point stands: the focus is on Shaw being a pure-play connectivity company.

And it's not messing around.

Shaw announced in June that it had sold its data centre business in a deal worth $2.3 billion. It had only entered the business three years ago with a $1.3 billion acquisition. If we were to just assume that the $1 billion difference was a profit, it earned an annualized return of 20.9% on that acquisition. I think we'd all be happy with that.

Shaw used some of those proceeds to acquire spectrum in Ontario, Alberta, and British Columbia. All told, Shaw paid **Quebecor Inc.** $400 million to acquire spectrum on both the 700 MHz and 2,500 MHz frequencies. This is necessary because it'll boost the company's network and make it stronger, which, according to some tests, is far weaker than the other three.

Is the plan working, though? It's still hit or miss. The company added 20,000 new wireless subscribers in the third quarter, while in Q3 2016, it added 22,000. On one hand, the company is still working hard on its roll out strategy, but on the other, for a new product, adding only 20,000 in an entire quarter is a little underwhelming.

Fortunately, the quarter was pretty decent when looking at the entire company versus just the wireless division. Its revenue from continuing operations was $1.31 billion, up 2.8% from the same time last year. And operating income was about $550 million, down only 0.5%. So, while analysts were certainly disappointed, the company is doing all right.

But you have to ask yourself when thinking about investing if you think that Shaw with its Freedom Mobile brand can compete with the big boys. And even if it can attract customers, will the margins be significant enough? Is Freedom Mobile going to have to offer cheaper prices to get the customers? And if so, how much profit can it generate?

These aren't questions that I can answer yet because the company is focused on its network versus a nationwide advertising campaign to boost subscriptions.

Frankly, there's something appealing about betting on the little guy. If customers of the Big Three hate their provider, they may be willing to switch. That could provide a serious boost for the company.

Ultimately, buying Shaw comes with some risk. However, in the past month, Shaw has given up nearly 8% of its value. On top of that, it pays nearly $0.10 a month in dividends — good for a strong 4.26% yield. Getting that kind of a yield makes the risk just a little smaller. Can Shaw compete? We'll have to wait and see. But if it does, the returns could be mammoth-sized.

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