



Better Buy for Dividend Investors: BCE Inc. vs. Shaw Communications Inc.

Description

There's a shake-up brewing in the Canadian telecommunications market.

Back in January 2016, **Shaw Communications Inc** ([TSX:SJR.B](#))([NYSE:SJR](#)) announced that it was divesting one of its subsidiaries, Shaw Media, in a sale to **Corus Entertainment Inc.** ([TSX:CJR.B](#)) for proceeds of \$2.65 billion.

Those proceeds were used to fund 100% of Shaw's purchase of WIND Mobile Corp. WIND Mobile would serve as the crown jewel of the Shaw's entry into the Canadian telecommunications, or mobile, market.

Essentially, the string of moves takes Shaw out of the broadcast television business and into the wireless business.

Shaw will now be going head to head with Canada's other formidable wireless carriers: **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)), **Rogers Communications Inc.**, and **Telus Corporation**.

Among the three incumbents, Rogers is not much of a dividend stock at all, paying just a 2.83% yield, and Telus has been more of a growth stock up until this point, leaving, BCE as the "king" of the telecoms, at least as far as dividends are concerned.

Can Shaw knock BCE off its throne?

When it comes to the dividend payout, if you buy either BCE or Shaw stock today, there really isn't much of a difference between the two.

Technically speaking, BCE gets the nod with a yield of 4.57% versus Shaw, which comes in at 4.11%.

But if you happen to be a retiree or a long-term buy-and-hold investor, this type of discrepancy won't matter very much at all over a multi-year holding period.

Instead, there's more value to be had by looking at the potential for these companies to raise their

dividends in coming years, which will absolutely make a difference.

Dividend-growth potential

Shaw appears to be the preferred play as the company's payout ratio is markedly lower.

Now, before we go any further, if you look at the results from the past year alone, you may be quick to point out that Shaw's payout ratio is actually higher at 103% of earnings versus BCE, whose dividend payout was more conservative at 86%.

Yet this type of short-term thinking fails to account for the fact that Shaw incurred more than \$500 million of one-time restructuring charges over the past 12 months in association with the media divestiture and WIND Mobile acquisition.

This type of accounting charge is not unusual at all and is actually very commonplace among companies going through internal restructurings, particularly ones as significant as Shaw's recent moves have been.

After backing out the one-time charges, Shaw's payout ratio rests much closer to 70% which, when viewed in combination with return on equity of 20%, suggests the company can sustainably grow its dividend payout at a rate of 6% a year.

Compare this to BCE's sustainable growth rate, which is closer to 3% or 4%.

This means that while those buying BCE shares will get a higher payout today, that edge will shift to Shaw in the coming years.

Getting solid value

While Shaw shares have a more expensive valuation in terms of their higher price-to-earnings and price-to-sales ratio, the company is expected to grow revenues by 8% this year compared to 5% growth for BCE.

The higher price multiples attached to Shaw's shares are effectively offset by the superior growth prospects that lie ahead for the company — growth prospects that could surprise to the upside if management is successful in executing its strategy to take market share in the Canadian wireless market.

Conclusion

Sometimes there is "hidden value" when you look deeper into a company's financial performance, and Shaw appears to be one of these cases.

While BCE is the "safer" stock, simply because it isn't going through any major restructurings, Shaw appears the better choice for those willing to scale up the risk ladder, even just a little bit.

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