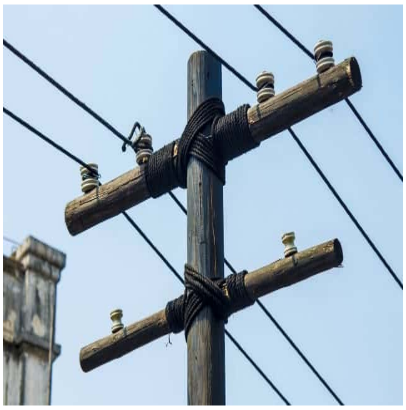

Disruptive Investors: Shaw Communications Inc. Reeks of Innovation

Description

On the most recent earnings call for Canadian telecom company **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR), in addition to highlighting strong earnings for the most recent quarter, the company's management team commented on two key transactions previously announced mid-June.

In this article, I'm going to touch a bit more on the two transactions which took Shaw's share price to a peak of more than $30 per share before the most recent dip, and talk about why I feel the recent sell-off for Shaw is unwarranted.

Earnings

The company reported earnings of $133 million for the quarter, substantially lower than a year earlier ($704 million), but in line with year-over-year earnings when gains from discontinued operations are factored out of the bottom line numbers. Free cash flow decreased by 28% due in part to increased capital investment across a number of key business areas including the launch of WideOpen Internet 150, launching BlueSky TV (in partnership with Comcast), as well as launching an LTE advanced network ahead of schedule, with an LTE handset lineup continuing to grow.

Perhaps the real story here is the fact that Shaw was able to grow its subscriber base (consumer and wireless divisions) by 58,000 RGUs in the quarter, substantial growth numbers which outpace many of the company's competitors.

ViaWest divestiture

One of the key items of note for Q3 2017 was Shaw's divestiture of its 100% stake in ViaWest for US$1.7 billion after purchasing the subsidiary just three years ago for US$1.2 billion. Any time a company turn around and spin off a holding for a US$500 million profit after only three years, investors should cheer, as Shaw will use the cash to continue to expand its wireless business and ramp up efforts to become a mainstay competitor for rivals **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI) and **Telus Corporation** (TSX:T)(NYSE:TU).

Wireless spectrum acquisitions

Another major announcement from Shaw’s management team which was expanded upon in the company’s conference call was the agreement with **Quebecor, Inc.** (TSX:QBR.B) to acquire the 700 MHz and 2500 MHz wireless spectrum licenses. Shaw has agreed to pay $430 million (funded essentially by the ViaWest divestiture) for the two licenses which are expected to allow the company to improve coverage in Western Canada, moving Shaw toward its goal of becoming an industry leader in the wireless space in Canada.

Dividend

One of the best things about Shaw is the company’s focus on providing excellent dividend distributions to its shareholders. With a dividend yield currently sitting at 4.3% (monthly distributions no less), investors looking for a company with significant yield upside along with solid capital appreciation over time should consider Shaw as a core portfolio holding.

Bottom line

Shaw is one of the best long-term plays available on the TSX today, combining long-term growth and near-term income potential for a wide range of investors with different portfolio needs. Shaw’s recent 10% dip provides investors with an attractive entry point, given the recent sell off which I expect to be short-lived.

Stay Foolish, my friends.

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2. NYSE:SJR (Shaw Communications Inc.)
3. NYSE:TU (TELUS)
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