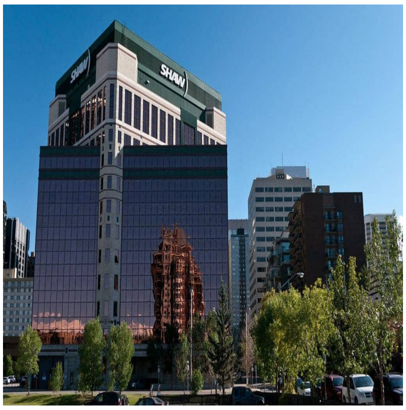

Shaw Communications Inc.: Investors Are Underestimating the Long-Term Potential of Freedom Mobile

Description

Interest rates are on the rise, and income investors seriously need to reevaluate their expectations with many of their dividend stocks. REITs, utilities, and telecoms are going against the grain as rates rise, and as a result, capital gains and dividend hikes in the coming years are likely to be modest compared to last several years, when interest rates were at rock-bottom levels.

For retirees who depend on their income for a comfortable living, rising rates can be quite alarming, but it doesn't have to be. Instead of owning traditional slow-growth, high-dividend stocks, like **BCE Inc.** (TSX:BCE)(NYSE:BCE), it may be time to grab another dividend stock with a more promising long-term outlook.

I'm talking about **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR), which is going to be a major disruptor to the Canadian telecom scene over the next few years. Shaw's wireless business, Freedom Mobile, has improved by leaps and bounds since its WIND Mobile days. Although wireless subscriber growth for Freedom Mobile has been modest since the acquisition, I believe we're witnessing the calm before the storm in the Canadian telecom scene. Shaw is that storm.

Wireless opportunity a major long-term catalyst

Freedom Mobile is ramping up with its promotions ($40 for four GB of data), and as more popular smartphones start being supported by Freedom's network, it's likely that subscriber momentum will accelerate. I believe next year will be huge for subscriber gains with its new LTE upgrades in place as well as the availability of the new line of **Apple Inc.** iPhones.

Canadian wireless users have been paying ridiculous rates for far too long. As time goes on, I believe many of the Big Three subscribers will jump ship to Freedom Mobile, which will offer solid network quality at more affordable prices.

Freedom Mobile also has an average revenue per user (ARPU) that's significantly lower than those of its Big Three peers ($37 vs. $66), so there's plenty of room for Freedom Mobile to increase its ARPU by offering premium add-on services. Promotions and additional savings are likely to entice existing users to spend more, thus increasing the overall APRU.

Bottom line

Shaw currently offers a hot 4.3% dividend yield, which may be lower than some of its Big Three peers, but I believe Shaw is much better prepared to offset the incoming headwind of rising interest rates thanks to its fast-growing wireless business. For this reason, I think Shaw will have the highest magnitude of dividend growth over the next five years.

I believe many investors may be overlooking the true long-term potential of Freedom Mobile. If you want a high-income play with promising growth catalysts, then look no further than Shaw.

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