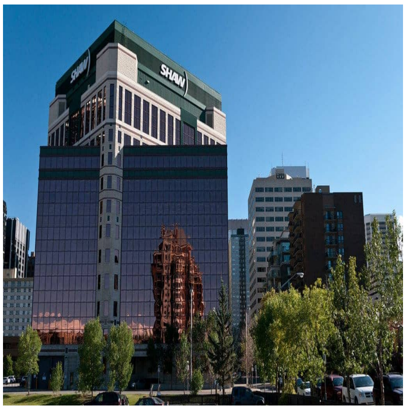

TFSA Investors: A Good Stock to Buy for Growth and Dividends

Description

Having a couple of telecom stocks in your TFSA portfolio is a good idea for the two main reasons.

First, Canadian telecom companies operate in a very favourable regulatory environment, where competition is not too fierce, as it is in the U.S. Second, Canadian telecom operators are great cash cows that pay hefty dividends to their shareholders.

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This provides a good advantage to long-term income investors who want to buy and hold these dividend payers in their portfolios to earn stable income.

So far, the market is dominated by the “Big Three” players, but a recent entry by **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) has the potential to change the market dynamics. Let’s find out if Shaw is a stock for your TFSA portfolio.

Shaw’s growth potential

Shaw wireless business has a much better potential to grow than the “Big Three” incumbents — **Rogers Communications Inc.**, **BCE Inc.**, and **Telus Corporation**. The company is investing heavily to improve the network of Freedom Mobile, which customers have long been complaining about due to its poor connectivity.

Shaw plans to deploy the 700 MHz and 2,500 MHz radio frequency blocks it purchased last spring for $430 million. It plans to spend an extra $350 million to deploy the spectrum and improve its network coverage and quality.

The battle for the crucial wireless market is already heating up. During this holiday season, Freedom Mobile forced the largest telecom players to cut their pricing in a direct response to its attractive offers. Customers benefited from deeply discounted plans with large data caps — something which is totally new for Canadian customers.

Shaw management is targeting to capture at least a quarter of the Canadian wireless market through its Freedom Mobile network. It seems Shaw is doing many things right. For example, it has recently struck a deal with **Apple Inc.** to sell the iPhone directly to customers.

Dividend potential

At its current share price of $28.43, Shaw offers a 4.13% annual dividend yield. The company currently pays monthly dividend of $0.09875 per share.

I don’t think Shaw will be able to offer double-digit growth in its dividend in the short term, as the company invests heavily to provide a reliable alternative in the Canadian market. Having said that, I also think that Shaw won’t deviate from its history of increasing dividends, which have doubled during the past decade.

On a total-returns basis, Shaw has delivered more than 25% gains during the past five years. That may not look too impressive to many investors. Going forward, however, I see a huge growth potential in this telecom stock, as it deploys capital and uses strong management skills to improve its market share.

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

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