This Canadian Dividend Hero Is Undergoing a Major Positive Transformation

Description

Shaw Communications Inc. (TSX:SJR.B)(NYSE:SJR) has been punished lately, thanks in part to its sub-par fiscal Q1 2018 numbers, which fellow Fool contributor Joseph Solitro summarized. The post-earnings sell-off was completely overblown and has opened a window of opportunity for deep-value income investors.

I've been incredibly bullish on Shaw's longer-term growth plans and its entry into the wireless market for quite some time now; however, I've noted numerous times that investors need to be patient to reap the rewards from the opportunity at hand.

There's still a tonne of work to be done on Shaw's part if its sub-par wireless network is going to compete with the likes of its competitors, so if you've got an investment horizon that's less than a year, you're probably better off looking elsewhere. For those seeking a high dividend (Shaw currently yields 4.4%) and above-average total returns over the next five years, Shaw is one of the safest bets an investor could make today.

Shaw is undergoing a major transformation, but meaningful changes won't happen overnight. The company is gradually shifting away from its legacy businesses and moving into the higher growth end of the spectrum. A tonne of spending is expected, but along the way, cost reductions are going to be made, and there's an opportunity for new tech to drive operational efficiencies.

Shaw moving forward with its cost-reduction plan

Shaw recently announced that it offered voluntary buyout packages for ~6,500 employees, ~10% of which are expected to be accepted before February 14, 2018. The "total business transformation" is expected to result in a ~5% reduction in the company's total workforce and is expected to streamline operations and increase EBITDA by as much as $25 million for the remainder of the fiscal year.

The cuts are primarily targeting the legacy business, which has become a less attractive area for future growth, especially since it looks like Shaw is looking to go all-in on its wireless business in Freedom Mobile. In addition, ample cuts are being made to the retail and customer care departments, both of which are likely to be replaced by more technologically advanced alternatives.

"People are increasingly choosing to not buy our industry's legacy product offering, and people no longer want to interact with companies the way they used to — and this is especially true in our category. In the midst of these dramatic changes driven by our customers and technology, we have a critical opportunity to redefine all aspects of our operating model," said the internal memo.

Bottom line

Shaw is moving in the right direction, and although fiscal Q1 2018 saw solid wireless subscriber growth, I think it'll be a drop in the bucket compared to the subscriber gains we'll witness in the quarters later in the year. Shaw has been absurdly aggressive with recent promos, and I'm pretty confident that 2018 will be the year that the Big Three incumbents finally see their subscriber numbers fall considerably courtesy of Freedom Mobile.

The Big Three's wireless subscribers are up for grabs, and given that Shaw is poised to receive an edge from regulators at future spectra auctions, I see no reason why a long-term income investor wouldn't want to own Shaw at these depressed levels. Given its promising growth trajectory, I believe the stock is a severely undervalued, low-risk/high-reward play that Foolish investors should capitalize on today.

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Date
2025/09/06
Date Created
2018/01/31
Author
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