Which Is the Better Buy: Shaw Communications Inc. or Rogers Communications Inc.?

Description

Rising bond yields is a threat that are facing telecommunications stocks in 2018. As bond yields rise, bonds start to look more attractive relative to stocks that are prized for their steady dividends.

As a result, telecom stocks' share prices have fallen recently and are trailing the **S&P/TSX Composite Index**. This decline in price may be an opportunity to buy telecom stocks on the dip.

Indeed, telecom stocks are attractive because of promising long-term trends: a growing Canadian population and rising smartphones penetration rates amid the removal of landline phones. Their rising dividend yield as share prices decline also make them attractive.

Shaw Communications Inc. (TSX:SJR.B)(NYSE:SJR) and **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI) are both down about 7% year-to-date. Is one of these two telecom stocks a better buy now? Let's have a look at their latest quarterly results to see if one is a better investment than the other.

Shaw Communications

On January 11, Shaw Communications report a 2018 first-quarter net income up 28% to $114 million, helped by its Freedom Mobile wireless business.

The profits amounted to $0.22 per diluted share for the quarter, up 22% from a year earlier. Analysts were expecting a profit of $0.29 per diluted share. Earnings are expected to grow at a rate of 13.7% next year.

Total revenue rose 2.7% to $1.25 billion. Wireless revenue climbed 27% to $175 million, while wireline revenue fell 0.4% to $1.08 billion.

During the quarter, the Calgary-based company added 34,000 wireless subscribers compared to9,500 net additions in the same quarter a year earlier. Wireline subscribers fell by 34,000 in the quarter compared with a loss of 30,000 a year earlier.

Shaw introduced permanent plans with 10 GB for $50 in October. Its larger competitors, Rogers Communications, **BCE Inc.** and **Telus Corporation**, responded by offering time limited plans of 10 GB for $60.

Shaw also began selling **Apple** iPhones directly to customers in December, which is a big success so far.

The telecom company predicts that its Freedom Mobile unit will attract a record number of customers in the second quarter.

Shaw pays a dividend of $0.0988 per share each month for a yield of 4.4%. The stock has a forward P/E of 23.1.

Rogers Communications

On January 25, Rogers Communications reported a 2017 fourth-quarter net income of $419 million, or $0.81 per share, compared with a loss of $9 million, or $0.02 per share a year earlier when it took a $484 million impairment charge.

On an adjusted basis, Rogers earned $0.88 per share, up 19% from a year ago. Analysts were expecting adjusted EPS of $0.86. Earnings are expected to grow at a rate of 7.5% next year.

Total revenue rose 3.5% to $3.63 billion, largely driven by wireless service revenue growth of 7%. Cable revenue increased 2% in the quarter due to internet revenue growth of 9%, and media revenue decreased 4%.

The Toronto-based company added 72,000 wireless postpaid subscribers during the final quarter of 2017 versus 93,000 last year.

Just before Christmas, Rogers introduced limited-time deals of 10 GB of data for $60 per month in response to similar offers from Shaw’s Freedom Mobile unit. However, Rogers experienced a computer problem that drove some customers towards its competitors. According to Rogers’ CEO Joe Natale, the problem caused the company to lose 35,000 additional subscribers in the quarter, pushing the rate of customer turnover up by 15 basis points to 1.48%.

On the cable side, Rogers gained 17,000 Internet subscribers in the quarter compared to 30,000 last year. The company lost 13,000 television subscribers in the quarter, the same loss witnessed over that period last year.

Rogers pays a dividend of $0.48 per share each quarter for a yield of 3.2%. The stock has a forward P/E of 15.3.

Which telecom company should you buy?

If you are an income investor, Shaw is a better choice for its higher yield. Rogers looks like a better choice for value investors as it's cheaper. I think Shaw is a better choice for growth investors, but riskier than Rogers. Shaw's Freedom Mobile unit is growing fast, and we could see some serious gains in the quarters to come due to the arrival of iPhones.

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