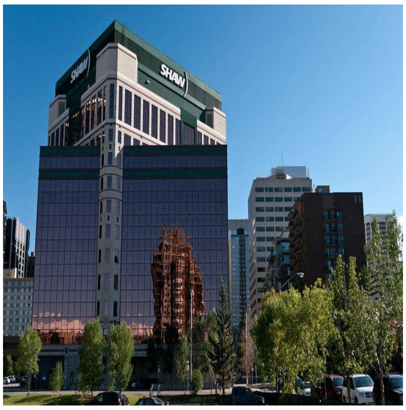

Don’t Ignore Shaw Communications Inc.’s Disruptive Potential

Description

The recent interest rate-induced sell-off has created a potential buy-the-dip scenario for the Canadian telecoms, but before you blindly initiate or add a position to the Big Three players, you should know about the disruptive potential of **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) and how it will change the Canadian wireless landscape over the next three to five years.

It’s been over a year since Shaw acquired Wind Mobile, now known as Freedom Mobile, and still, the impact hasn’t really been ground shaking. That’s because Freedom Mobile’s infrastructure is still vastly inferior to that of its bigger brothers, and it will continue to be inferior over the medium term in spite of recent LTE upgrade efforts across Freedom Mobile’s markets of operation (Vancouver, GTA, etc.). These upgrades are slated to continue, and eventually Shaw will meet its goal of obtaining a fair ~25% share of the wireless market, as it continues to put its foot to the pedal on wireless growth.

Management has noted that it intends to remain a cheaper carrier, even as the performance gap between its Big Three peers continues to shrink. That, when combined with aggressive promos and a competitive edge granted by regulators, could accelerate Freedom Mobile’s growth in the coming years.

Shaw’s wireless business only accounts for 3.4% of the Canadian market right now and represents a small portion of Shaw’s overall business; however, over the next few years, this wireless segment will grow to become a major thorn in the side of the Big Three incumbents, as they’re forced to discount to stay competitive in a market where subscribers have low switching costs.

We’ve already seen the Big Three incumbents react to the entrance of Freedom Mobile with limited-time-offer discounts, which caused many consumers to stand in line for hours to get a 10-gig data deal that matched that of Freedom Mobile’s. This limited-time offer from the Big Three dampened Freedom Mobile’s wireless growth for the quarter; however, it’s unlikely that the Big Three players can sustainably match the discount that Freedom Mobile is offering without taking a major hit to wireless margins.

Moving forward, all eyes will be on Shaw’s wireless growth numbers, which could be off the charts, especially when you consider the fact that Freedom Mobile has a solid roster of devices at much lower rates than the Big Three players. With iPhones now supported by Freedom Mobile's network, a switching window is now wide open for **Apple Inc.** fanatics. We could see substantial wireless growth at the expense of the Big Three incumbents thanks to the next line of iPhone devices, which will likely go for $0 on select two-year plans.

Bottom line

Freedom Mobile is a small player in the wireless scene today, but over the next few years, I think subscriber growth will soar, as the Big Three incumbents really start to see their subscriber bases slowly wither away.

Shaw remains my top dividend pick for long-term investors who want to maximize their total returns over the next three to five years. While you wait for Freedom Mobile to make a dent in the Big Three's top line, you can collect a juicy dividend, which currently yields 4.76%.

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