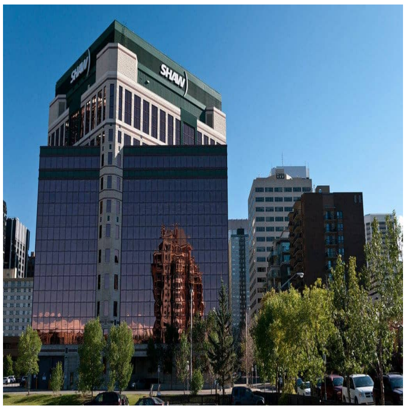

Why Shaw Communications Inc. Stock Is up Big Time in Intraday Trading

Description

Often, the big moves — up or down — in intraday trading are triggered by quarterly earnings results. In the case of **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR), the stock appreciated as much as nearly 10% during the trading day today.

Second-quarter results

The highlight was that the telecom company more than doubled its wireless subscribers with 93,500 net additions in the second quarter compared to 33,400 net additions in the same quarter last year. Wireless subscribers are a source of recurring revenue. Investors should note that the strong growth was aided by the holiday season in December.

In the report, it stated that "the increase in the customer base reflects customer demand for the iPhone combined with our device pricing and packaging options and the ongoing execution of our wireless growth strategy to improve the network and customer experience."

The wireless-subscriber additions led to revenue growth of 12.4% year over year to $1.36 billion.

What's the profit exactly?

The optimism faded a bit, as the stock is now up ~8%. Notably, Shaw is undergoing a huge business transformation. Although the company generated operating income of $501 million, after accounting for restructuring costs, the company would be left with only $84 million of operating income for the quarter.

What is the transformation?

Although there are huge costs involved in the transformation, Shaw and its customers should benefit from it in the long run. In the quarterly report, the company broke down the key elements of the transformation: “1) shift customer interactions to digital platforms; 2) drive more self-install and self-serve; and, 3) streamline the organization that builds and services the networks.”

So, the transformation should ultimately reduce costs, improve efficiency, and improve customer service.

Dividend and returns potential

Since March 2015, Shaw has maintained the same monthly dividend, which totals an annualized payout of $1.185 per share. At ~$26 per share, the telecom offers a yield of ~4.5%.

The company’s payout ratio has crept up from ~63% a few years ago to the estimated ~90% this year, largely due to the sale of the media business to **Corus Entertainment** in 2016, which led to huge earnings reduction. So, Shaw is unlikely to increase the dividend until the payout ratio reduces to more reasonable levels.

The analyst consensus from **Thomson Reuters** has a mean 12-month target of $29.40 per share on the stock, which represents ~13% upside potential in the near term.

Investor takeaway

Shaw is fairly valued. It offers a ~4.5% yield, which should be safe. However, there’s a low chance of near-term dividend growth. The stock is probably a hold at this point.

New investors should consider other stocks that offer a similar yield, a bigger margin of safety (in the dividend and the stock price), and dividend-growth potential.

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