

If You Own This TFSA-Worthy Dividend Stock, Buy More

Description

With interest rates on the rise, it can be tough to spot opportunities in Canada's basket of "safe" dividend stocks. The telecom business is incredibly capital intensive, as it requires a constant flow of infrastructure investment to keep up with peers, as wireless technology continues to advance.

With 5G on the horizon, Canada's Big Three players are going to need to open their wallets in spite of higher borrowing costs. That means they will need meaningful cost reductions to avoid a reduction in the magnitude of dividend growth compared to previous years.

To add even more salt in the wound of Canada's telecoms, the wireless cartel may be in jeopardy, as the wireless business of [Shaw Communications Inc. \(TSX:SJR.B\)\(NYSE:SJR\)](#) continues to pick up subscriber-growth momentum. Management noted that it intends to keep costs down, despite year-over-year improvements to the quality of its network.

Shaw's wireless business, Freedom Mobile, has come a long way since the WIND Mobile days, but the quality of its network in its markets of operation are still inferior to that of any Big Three player — not to mention a far lesser degree of market penetration than its peers.

Shaw remains focused on improving the reliability of its network in densely urbanized geographies like Greater Vancouver and the Greater Toronto Area, since these are the markets that will give Shaw the best bang for its buck (higher return on invested capital) and will cause the greatest disruption over the shortest period of time.

Sure, folks in the suburbs may not have the opportunity to enjoy the balance of affordability and reliability until much later, but for now, Shaw's aggressive strategy to "poach" the Big Three incumbents' subscribers finally appears to be grabbing the attention of the general public.

In many previous pieces, I've noted that the disruptive potential of Shaw's wireless business was severely downplayed by many analysts. The Big Three incumbents have the advantage through their superior networks for now, but when you consider the grander scheme of things, it's not too far-fetched to view Shaw as the **T-Mobile US** of the Canadian wireless market.

When you consider the fact that regulators really want to break up the cartel-like structure of the Big Three incumbents, it looks like Shaw may be granted first dibs at spectra auctions. This, when combined with low expectations on the wireless business, sets the stage for many years' worth of growth that I believe will be more than enough to offset the headwind of rising interest rates.

As a Freedom Mobile customer in the Vancouver area, I can tell you that the LTE network is anything but on par with its bigger brothers at this point in time. Many network improvements are still necessary to catch up. Each dollar spent on upgrades will fetch a greater return in the form of additional subscribers versus the Big Three.

Moreover, when 5G finally hits the mainstream, watch for Shaw to make aggressive moves that may cause the delicate Big Three cartel-like structure to break up, as extremely attractive U.S.-style wireless promos start becoming the norm. Think of the emergence of 5G as a clean slate for Shaw, as the value of the Big Three's legacy infrastructure begins to erode.

If you've got a time horizon of five years, Shaw is an [outstanding bet for dividend and growth investors alike](#). Shaw's shareholder-friendly management team will likely continue to reward investors through upped dividends, all while it moves closer to realizing its ultimate goal of grabbing a fair 25% share of the wireless market.

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