Time to Buy This Telecom for Monthly Income

Description

It has been a buying bonanza for people looking to invest in dividend-paying stocks over the past few weeks. With these companies yielding well over 5%, the choices have been plentiful. But what if you have bought enough **BCE** for your liking and want something else to fill that high-dividend void? One company that might do the trick is **Shaw Communications** (TSX:SJR.B)(NYSE:SJR).

Shaw is not as big as its competitors, but it is an up-and-coming player in the wireless space. After its acquisition of Wind Mobile in 2016, Shaw has been making progress in that area after changing Wind's name to Freedom Mobile. The company continues to expand its reach and product offerings, making it a true competitor to the more established players. The company offers services around Canada, but has a western Canadian focus.

Shaw's growth has been quite attractive in no small part because of the wireless business. In the fourth quarter of 2018, revenue increased by 7%. Wireless average revenue per unit contributed to the consolidated number with its own 9% growth.

Restructuring costs and amortization drove down earnings and operating income over the period, but removing these factors demonstrates a positive future direction. Without these acquisition-related costs, operating income increased by 16% over the year before. This indicates a long-term move in a positive direction.

One minor, but somewhat attractive aspect of the company is the fact that it pays a monthly rather than quarterly dividend. For income seekers and retirees, the monthly payout is an attractive incentive. The dividend itself is not bad either; it's just under 5% at the current share price.

Shaw isn't as expensive after the recent pummeling dividend stocks have taken. It trades at a forward price-to-earnings multiple of around 17 and a price to book of two. While this valuation does not make it a screaming bargain, its growth potential in the wireless space does mean this is a satisfactory point to begin a position in the company if you want to receive the monthly income.

As is often the case with these capital-intensive dividend-paying companies, Shaw's debt is quite high. The aforementioned Wind acquisition did not help matters, as the company had to tap the debt market in order to buy it. Of course, it is also this acquisition that is powering the company's growth, so therein lies the trade-off.

Investors should monitor Shaw's ability to meet its debt obligations, especially in the face of rising interest rates. At the moment, this does not seem to be an issue.

Is Shaw the right telecom choice for income investors?

Shaw would be a good addition to a dividend portfolio, especially in light of its Freedom (Wind) Mobile component. Probably the choice would be to pair it up with another telecom, such as BCE, and have those two each make up 2.5% of your Canadian dividend portfolio. Each company has a high dividend and occupies a slightly different area of the Canadian wireless market. This could potentially reduce, to a degree, the number of customers they steal from each other.

If you keep an eye on its debt and keep it to a small portion of your overall portfolio, Shaw would make a good addition at the current share price.

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Date
2025/08/26
Date Created
2018/11/05
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