At a 5% Yield, This Stock Is a Buy

Description

There is one massive advantage of being a long-term focused investor. Whenever things get tumultuous, buying opportunities abound. When things are calm, take a vacation and wait for the next opportunity. Preparing for action while remaining inactive is as important as making the actual stock purchase. The problem is that long-term planning is hard and the waiting period can seem so long that we feel, as investors, that we need to buy or sell something to be productive.

After a fantastic period for buying dividend stocks, prices have started to move higher once again. As a general rule, once hard-hit dividend stocks' dividends move lower than 5% and are near their 52-week lows, they begin to be less attractive as investments. This is a soft rule, of course, subject to the analysis of operational performance and dividend growth, but it does provide a quick screen for timing an entry point for any given dividend stock.

But while many dividend stocks have moved upwards significantly, **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) is still sitting very close to the 5% dividend mark and is still very close to its 52-week low, although it is not quite there yet. In any case, it is a good idea to be prepared so that when another downturn arrives, we are prepared to buy.

For income investors, a high and growing yield is one of the most important factors when considering dividend stocks. Currently, the yield sits at 4.72%, just shy of the 5% minimum yield I would expect from stocks of this type. Shaw also has a monthly payout as opposed to the quarterly version the other telecoms use. Monthly payouts are handy for people who plan on monthly income streams, although they are in essence no better than quarterly payouts.

The only problem with the company's dividend is the fact that Shaw has not raised its dividend in a while, probably in part to conserve capital after making the large Wind Mobile acquisition in 2016. The acquisition required Shaw to take on a fair amount of debt, so Shaw decided to conserve capital. While the stagnant dividend is a definite negative for income investors, it does indicate the willingness of management to manage its books responsibly.

The good news is that the Wind Mobile acquisition has been accretive for the company. Wireless postpaid net additions increased 9% year-over-year which demonstrates the positive impact of the strategic move. As of the fourth quarter of 2018, the company announced that it had improved its consolidated revenues by 7% over the previous year. Operating income increased by 16% over the fourth quarter of 2017.

Shaw is an attractive dividend investment for a number of reasons above and beyond the high yield. Its wireless business is a growth driver for the company and should continue to be lucrative as the company. Shaw will likely continue to find new avenues for growth as technologies such as the Internet of Things and automated cars begin to be more prevalent in society.

The only problem with Shaw is the amount of debt it carries and the fact that it has not raised its dividend in a significant amount of time. While keeping the dividend steady is probably a good move from a business perspective, it might deter some income investors from owning the stock.

If you still want to buy the shares of Shaw, keep watching to see if the company's yield moves above 5%. At this 5% point, Shaw would be a good long-term hold for investors looking for steady, although not yet growing, income.

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