Why I'm Doubling Down on Shaw Communications (TSX:SJR.B)

Description

Canada's telecoms are not unlike the Big Banks in that they continue to post positive results, have attractive dividends and continue to plot out impressive growth paths for the future.

Shaw Communications (TSX:SJR.B)(NYSE:SJR) is the fourth-largest telecom in the country, with a footprint that is significantly smaller than its larger peers. Despite that smaller size, Shaw has attracted a significant amount of attention of late, due in part to the company's rollout of its mobile service-Freedom mobile.

Why focus on wireless?

Wireless networks have become somewhat of a Holy Grail for telecoms in recent years, particularly as cord-cutting tendencies of subscribers of both landline and traditional cable TV services continue to intensify, and those telecoms look for places to replace that lost revenue.

Adding to that appeal is the fact that wireless service continues to offer consumers more capabilities than ever before, thanks to a flurry of new device offerings, new connectivity standards, and the ever more data-hungry applications, of which the telecoms are eager to provide to consumers — for a cost.

In order to capitalize on that opportunity, Shaw sold off its media arm a few years ago and acquired the assets of former wireless carrier, Wind Mobile. Wind had a much smaller coverage area over any of the other Big Three carriers at the time.

In fact, that coverage was limited to small sections of Ontario, Alberta, and B.C., but it was a foundation from which Shaw could begin to build out Freedom Mobile.

That's exactly what Shaw did. Freedom Mobile continues to see strong growth with each passing quarter, with aggressive pricing, generous data allowances and customer-friendly service that is steadily luring customers away from the Big Three.

By example, in the most recent quarter, Shaw announced 65,000 new postpaid subscribers to its wireless offering, bringing the total number of wireless subscribers on Freedom mobile to just over 1.5 million.

In the most recent quarter, Freedom Mobile saw a revenue pullback attributed to lower hardware sales, but overall, the segment is expected to continue growing over the next few quarters as Shaw continues to expand its wireless service to new markets across the country.

Specifically, revenue from the wireless segment dropped $17 million in the most recent quarter, but that slump in device sales masks the real growth story investors should be focused on — namely, that subscribers numbers continue to grow and that wireless revenue topped 26% over the same period last year, coming in at $134 million.

The company has recently stated that its intent for 2019 was to bring service to new markets primarily in the west of the country and augment that new service with new retail partners in those markets.

Equally important, if not more critical for Shaw is beefing up its spectrum. In the recent wireless spectrum auction held last month, Shaw invested a whopping $492 million for the 600 Mhz wireless band, acquiring 11 additional licenses.

The 600 MHz band is known for its ability to better penetrate buildings and cover large areas – both of which are critical to Freedom Mobile's growth plans, and that of its peers too. In fact, one of Shaw's Big Three peers spent over $1.7 billion at the auction.

There's no denying the fact that Shaw's mobile play is already showing its potential, but that's not the only advantage for investors to take note of.

Shaw offers investors a monthly dividend, which, despite no longer seeing annual upticks, still offers a respectable annual yield of 4.26%, making Shaw an equally attractive income-producing investment as well.

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