Why Investing in Shaw Communications (TSX:SJR) Makes Sense

Description

Shaw Communications (TSX:SJR.B)(NYSE:SJR) remains one of the most misunderstood, and at the same time, lucrative investment opportunities for those investors looking to diversify their portfolio with a telecom holding outside of the Big Three. Specifically, Shaw's movement over the past two years into the wireless segment to challenge the Big Three is something that every investor should take into consideration.

It's (almost all) about wireless

Wireless is the new frontier for telecoms, as a growing number of smartphone-based capabilities are driving insatiable demand toward higher data limits, more customized applications and in turn, more revenue for those telecoms. To put that into context, take a moment and think back to how much your life has changed in the past decade, specifically with respect to the number of devices we used to have around us in our daily lives that our smartphones now provide for us. Everything from alarm clocks, cameras and personal video players to reading books, listening to music and using a remote can now be done on your smartphone.

Shaw's foray into that very crowded, saturated and lucrative Canadian wireless sector is something of a gutsy move, and to be clear, something that the company is continuing to impress upon with each passing quarter. The aptly named Freedom Mobile is consistently pitched as a viable alternative to customers of the Big Three, with generous data allowances, smaller monthly bills and a steadily expanding (although still tiny) coverage area.

By example, in the most recent quarter, Shaw reported 65,000 net additions to its wireless service and saw a 7.5% year-over-year growth ABPU (average billing per subscriber unit) to $41.34.

That's not to say Shaw's other units aren't seeing solid growth, however; both the consumer and business segments saw notable growth in the quarter, thanks in part to a series of bandwidth upgrades announced last fall. The consumer internet segment saw net additions of 11,100 in the quarter, while the business segment saw revenue growth of 5.7% in the quarter.

Q2 results reveal long-term potential

Shaw provided an update on the second fiscal of 2019 last month that on the surface appeared to show the company continuing to make progress on a number of fronts. While revenue was mostly flat, with a 1% dip to $1.316 billion over the same period last year, earnings painted a completely different picture. Specifically, Shaw reported net income of $155 million, or $0.30 per diluted share, a noted improvement over the $175 million loss, or $0.35 per share loss reported in the same quarter last year.

Shaw also reported a 29% improvement in free cash flow, with the company posting $160 million in the most recent quarter.

Aside from the growth potential that comes with Shaw's wireless segment, the monthly dividend on offer is provides the most pull to investors, and while the monthly distribution hasn't seen a hike in several years, as Shaw has focused on building out Freedom Mobile, the monthly payout still provides a competitive yield of 4.37% that surpasses some of the Big Three.

In my opinion, Shaw makes an excellent long-term holding for investors wanting a steady income stream or for long-term growth. Buy it, forget about it and let those monthly dividends grow into a sizeable nest egg.

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