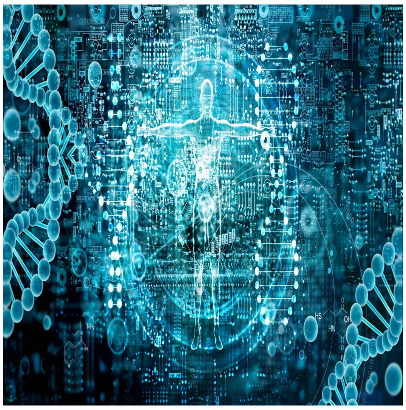

Long-Term Investors: This Disrupter Is Set to Continue to Grow Into 2020

Description

Since the explosion of wireless and wireline technology, the competition in the telecommunications space has been minimal in Canada. Now, as consumers get fed up and want change — and the government agrees — more companies are trying their hand at disrupting the sector and gaining market share from the big three.

Companies with lots of cash and the patience of shareholders will be best positioned, as breaking into the sector and capturing meaningful market share will take much investment and time.

One company that has been working to continue to grow and disrupt the space is **Shaw Communications Inc** (TSX:SJR.B)(NYSE:SJR).

Shaw has been reorganizing its portfolio of businesses the last few years. It bought Wind Mobile in 2016 for $1.6 billion. Soon after, it sold Shaw Media to **Corus**, for eventual total proceeds of more than $3.1 billion.

In 2017 it bought wireless licenses from **Quebecor** for $430 million, then sold ViaWest that same year for USD $1.7 billion. Finally, most recently it purchased more spectrum licenses this year for just under $500 million. These will be used to improve existing LTE service and prepare the company for 5G.

Shaw has been in an ongoing process of completely revamping the business to make it more digital. This has two benefits: it optimizes Shaw's business operations leading to more efficiency, and it creates a better user experience, more of what users expect.

Wireless

Shaw's wireless business, Freedom Mobile, is a direct shot at gaining market share from the big three. When the company first bought Wind Mobile and rebranded it as Freedom, the first marketing messages were about relieving consumers of the dreaded overage charges.

It's clear Freedom is aware of what users want, and is working to bring that to market. Currently, Freedom has operations in Ontario, Alberta and B.C. In the areas within Freedom's network service, there are roughly 17 million Canadians, which is almost 50% of the Canadian population.

The growth has been impressive so far. In 2018, Freedom saw a 57% year over year increase in revenue and a 32% year over year gain in EBITDA. In the third quarter of fiscal 2019, alone, the company added more than 62,000 new subscribers.

This is no surprise given the investment that Shaw has been making in the wireless sector. It's been successful because of the disruption that consumers have been asking for and Freedom has been providing.

With better plans for cheaper prices, Freedom is doing a decent job of slicing out a piece of the market for itself.

Wireline

The wireline segment has also been doing well. As of May 1, the segment had roughly 5.1 million combined customers across its satellite, phone, internet and video product lines.

The internet is considerably fast with download speeds up to 600 MBPS. For example, **Netflix** ranked Shaw as being one of the top internet providers in Canada during its May 2019 ISP Speed Index rating.

The wireline segment also serves small and medium size businesses. Some of the products offered are SmartVoice a unified communication system that combines messaging, email, video conferencing and more. It also offers products such as SmartWiFi, SmartSecurity and SmartSurveillance.

The wireline segment grew its revenue 6.5% year over year, while EBITDA grew 2.6% year over year. The company has more than 600,000 business subscribers.

Financials

The balance sheet is in great shape with only a 1.8 times net debt leverage ratio. Going forward, Shaw is targeting 2.0 times to 2.5 times for the net debt leverage ratio. It also has around $2.9 billion in available liquidity, of which $1.4 billion is cash.

It expects a 6% year-over-year increase in EBITDA. For the year, Capex has been revised down to $1.2 billion, which means that the company revised free cash flow upwards to around $550 million.

It's also returning cash to shareholders. Shaw paid out almost $600 million in dividends in fiscal 2018. The current dividend is $1.19 annually and yields around 4.65%.

Bottom line

As long as Shaw can continue on its execution, investing in quality infrastructure, and benefitting from the continued desire of Canadians to increase competition in the industry, then the company will continue to grow. It won't be easy, but management has shown so far, no reason to be doubted.

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