Get Defensive for 2020 With This Investment

Description

There are increasing signs across the market that slowdown is coming. While the economy is technically still growing, a host of factors, ranging from the federal election to the upcoming Brexit deadline and finally the slowing U.S. economy (which just came off some weak manufacturing numbers and began what could be a long, painful impeachment investigation), could push the market into contraction.

One way to counter any impending slowdown is to invest in defensive stocks that will continue to provide a steady stream of revenue and, by extension, income to investors. **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) is an interesting example of this.

Why should you invest in Shaw?

Although Shaw isn't one of the Big Three telecoms, the Calgary-based telecom offers an encouraging number of advantages for the defensive-minded investor.

First, there's the telecom business itself. Telecoms generate a stable and recurring revenue stream by offering subscribers internet, TV, and wired phone services. Shaw's Freedom Mobile still can't counter the coverage that the Big Three offer, but Freedom's aggressive pricing and generous packages have already caused a shift in the Canadian telecom landscape. This is a major point that is often dismissed by critics.

In short, our wireless devices are becoming more important in our daily lives, with a host of applications that were once performed by other devices, such as cameras, alarm clocks, and calendars. Being the provider of the data that those services consume is a massive opportunity, and one that Shaw is investing heavily in through Freedom Mobile.

In the third quarter, Shaw added 61,000 subscribers, and the company has captured a small but growing segment of the market, despite the tiny coverage footprint it offers.

Then there's Shaw's improving balance sheet. To finance the Freedom Mobile initiative, Shaw sold its media arm several years ago, effectively becoming a pure-play telecom. In the most recent quarter, Shaw saw revenue come in at $1,324 million, reflecting a 2.7% increase over the same period last year. Free cash flow saw an equally impressive bump of 5.4% in the most recent quarter to $176 million.

Overall, the company earned $229 million, 0r $0.44 per share, in the most recent quarter, reflecting a much-improved quarter over the same period last year, where the company posted a loss of $99 million, or $0.20 per share.

Shaw is set to provide updated results on the fourth quarter later this month.

Earn some income, too

Finally, let’s talk dividends. Telecoms are well known for providing handsome income-earning potential thanks to their mature and recurring business models. In this regard, Shaw offers a very competitive 4.44% yield, which falls near the upper end when compared to its Big Three peers.

Where Shaw excels in this regard is that the company offers a monthly distribution rather than a quarterly payout, which could appeal to income seekers that want a more frequent payout.

The one caveat with Shaw’s dividend is that despite offering a handsome yield, Shaw hasn’t hiked its dividend in several years. This is due to the company continuing to invest in growing Freedom Mobile, a strategy that will pay dividends to investors (quite literally!) over the long term.

An example of this is the recently acquired 600 Mhz spectrum that was announced in the most recent quarter, which will not only lay the foundation for 5G service but improve existing coverage in Ontario, British Columbia, and Alberta.

Final thoughts

Telecoms are great defensive investments, and with growing uncertainty on the horizon, now might be a great time to invest in Shaw. The company’s efforts at growing Freedom Mobile are beginning to bear fruit, and the volatile market we’ve seen in the past few months has meant Shaw’s stock price is down 3% in the past six-month period, translating into a unique buying opportunity.

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