Long-Term Investors: Why Shaw Communications (TSX:SJR.B) Can Take On the Big 3

Description

When considering an investment in the telecom industry, you have two main choices. You can choose to invest in the larger established companies, such as **BCE**, or you can invest in an up-and-coming stock like **Shaw Communications** (TSX:SJR.B)(NYSE:SJR), which is challenging the Big Three for market share.

Since Shaw sold its media assets to **Corus Entertainment** in 2016, the company has had one focus: to build up its wireless and wireline businesses.

It has always had a decent position in the wireline business in Western Canada, competing mainly with **Telus**, but with its purchase of Wind Mobile, and subsequent re-branding to Freedom Mobile, it's clear it has its sights set on becoming the next big nation-wide carrier.

So far, it has made some strategic divestments to free up capital and give it flexibility to expand, while maintaining the level of the dividend.

In order to expand its business, Shaw has been investing tonnes of capital to build out its infrastructure, which will improve its LTE network in addition to setting the stage for the introduction of 5G.

In fiscal 2019, the company spent more than $1.2 billion on capital expenditures, and it plans to spend another $1.1 billion on capital expenditures in 2020, according to its guidance.

Its wireless business Freedom Mobile operates in B.C., Alberta, and Ontario, and although three provinces don't seem like that much, its network reaches roughly half the Canadian population.

Its lengthy history of investing in its wireless infrastructure to improve its network has been paying off, with Freedom reporting its lowest-ever mobile churn rate in the third quarter of its fiscal 2019 at just 1.18%.

In addition to the stronger network, better promotions and deals for its customers have also helped to retain customers.

Its total revenue from wireless grew 17% in fiscal 2019, crossing the $1 billion mark, while its earnings before interest, taxes, depreciation, and amortization (EBITDA) grew a whopping 45%, to roughly $206 million.

In its wireline segment saw roughly flat revenue growth in fiscal 2019, with EBITDA growing by 2% to $1.96 billion.

For a stock with a considerable amount of growth potential, Shaw seems well positioned financially. Its net debt of approximately $4 billion compared to its 2019 EBITDA of more than $2.1 billion gives it a net-debt-to-EBITDA ratio of less than two times. It also has roughly $2.5 billion in liquidity.

The liquidity and strong financial position is great news for income investors, as you can capture the dividend that yields roughly 4.3% while not having to worry about its stability and still having exposure to all the upside.

Although an investment in BCE could be even more stable, there isn’t as much growth potential, and its dividend only yields 70 basis points more at just under 5%, which may not make the lack of growth potential worth it, depending on your personal preferences.

From a valuation standpoint, Shaw is slightly undervalued in my opinion, with the stock trading at less than seven times its estimated 2020 EBITDA.

It’s a strong company that pays out a fair amount to investors and has tonnes of growth potential.

An investment today for the long term will almost certainly result in great gains, especially if you continue to reinvest the dividends or buy the dips over the long term.

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