Tired of Being Poor? 1 Stock Is All You Need

Description

Shaw (TSX:SJR.B)(NYSE:SJR) is a diversified Canadian connectivity company that provides cable telecommunications, satellite video services and data networking to residential customers, businesses and public sector entities.

The company also provides wireless services for voice and data communications. The company reports a market capitalization of $13.72 billion with a 52-week low of $24.44 and a 52-week high of $28.10.

Shaw reports a current dividend yield of 4.48% achieved by a monthly dividend of $0.09875.

Intrinsic price

Based on my calculations, using a comparable company analysis (CCA) model, I determined that Shaw has an intrinsic value of $26.55 per share.

At the time of writing, share price of $26.48, I believe Shaw is trading at its intrinsic value. Investors looking to add a telecommunications company to their RRSP or TFSA should follow Shaw throughout 2020 for an opportunity to buy shares of the company at less than intrinsic value.

Shaw has an enterprise value of $17.9 billion, which represents the theoretical price a buyer would pay for all of Shaw's outstanding shares plus its debt.

Financial highlights

For the fiscal year ended August 31, 2019, the company reports a strong balance sheet with $1.7 billion in retained earnings.

This is a good sign for investors, as it indicates that the company has had more years of cumulative net income than net loss, which is reinvested into the company.

Given shareholders' equity of $6.3 billion, intangibles of $8 billion and goodwill of $280 million, the company reports negative tangible net worth of $2 billion. This is not ideal, however, as negative tangible net worth suggests the company has no real value.

Overall revenues are up materially year over year to $5.340 billion, from $5.189 billion in 2018 (+3%), driven by increases in its wireless division from $564 million to $694 million (+23%).

With a decrease in COGS and SG&A (driven by restructuring gains of $9 million, compared to restructuring costs of $446 million in 2018), the company reports pre-tax income of $851 million compared to $167 million in 2018 (+410%).

Shaw spent $492 million on the acquisition of spectrum licenses which give the company rights to use certain radio frequencies to communicate. This could suggest the Shaw has plans to expand its services which indicates increased growth in the future.

One of the company's largest financing cash outflows is dividends on its shares, which amounted to $389 million in 2019 and $384 million in 2018.

The company ended the year strongly with cash and equivalents of $1.4 billion. This liquidity is important for a company like Shaw that's clearly committed to investing in its growth.

Foolish takeaway

Investors looking to diversify into the telecommunications industry should consider buying shares of Shaw. At the current share price of $26.48 compared to its intrinsic value of $26.55, Shaw is trading at fair value.

That said, I recommend interested investors follow the stock through 2020 to look for opportunities to buy shares at less than intrinsic value.

From a financial statement perspective, the company is strong with positive retained earnings, increasing revenues and profitability, investments in spectrum licenses and the payment of dividends.

Although other telecom companies have a normal course issuer bid (NCIB) in place to repurchase and cancel shares, I am not overly concerned with the absence of one for Shaw, as the company clearly wants to save the cash to fuel its growth.

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