BUY NOW: Why This Telecom Stock Could Yield a Solid Return in 2020

Description

Shaw Communications (TSX:SJR.B)(NYSE:SJR) — the Canadian telecommunication firm –reported its better-than-expected third-quarter results on Friday.

In the quarter ended May 2020, the company's adjusted earnings fell by about 47% YoY (year over year) to $0.35 per share. Nonetheless, it was better than Bay Street analysts' expectation of $0.30 per share. This drove optimism among investors and triggered a rally in its stock.

On Friday, its stock settled with 2.1% gains for the day and continues to extend these gains today, as it rose by 5.3% this morning. Let's take a closer look at some key highlights from Shaw Communications's third-quarter results and find out why it could be a good time to buy this TSX stock.

Shaw Communications's Q3 2020 earnings

In three months ended May 2020, the company's total revenue marginally fell by 0.9% YoY to $1.3 billion. But it was nearly 4.1% better as compared to analysts' estimates. Due to the ongoing pandemic, Shaw Communications's subscriber activity remained subdued.

On the positive side, it reported a solid 72% rise in the number of self-install customers. Many of its customers seem to be choosing to self-install their wireline internet services to follow social distancing amid the COVID-19 outbreak.

Shaw Communications's wireless service revenue jumped up by 17% YoY in the third quarter to $206 million. This increase can be attributed to its rising wireline service subscriber base and strong demand for Big Gig data plans, as more people continue to work from home.

Is profitability improving?

In Q3 of fiscal 2020, Shaw Communications's adjusted net profit margin was at 14% — much better than 12.3% and 11.7% in the second and first quarter, respectively. In fiscal 2019, the company's adjusted net profit margin was also slightly lower at 13.8%.

It's important to note that Shaw Communications's profit margins from its services segment tend to be higher as compared to equipment sales. In the third quarter, its equipment sales fell, while services revenue rose, which helped the company improve its net profitability.

Plans to benefit from work-from-home culture

Interestingly, Shaw Communications recently launched its Fibre+ Gig Internet Service, which is currently available to more than 99% of its residential customers. The new service mainly targets consumers that need faster internet speeds to work from home or attend their online classes.

While the company's management acknowledges pandemic-related uncertainties, it is making efforts to benefit from work from home culture. Shaw Communications's CEO Brad Shaw believes that the company is "well positioned to capitalize on growth opportunities in a post-COVID environment."

Foolish takeaway

Clearly, Shaw Communications's rising revenue from wireless services is helping it improve margins, despite overall headwinds from the COVID-19 outbreak. As the economy gradually reopens, the company's revenue from the business segment is very likely to get back on track.

I believe many new residential subscribers — who availed Shaw's internet services to work from home — might choose to continue their subscriptions, even after the economy completely reopens in the months to come. This would help Shaw Communications expand its residential consumers' subscriber base along with continued growth in the business segment as the pandemic subsides.

As of July 10, its stock was trading with a 14.8% year-to-date losses as compared to a 7.9% drop in the **S&P/TSX Composite Index**. In my opinion, many investors are ignoring Shaw Communications's improving profit margins and its future growth potential in the post-pandemic world. These are some of the key reasons why you may want to buy Shaw Communications stock right now.

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Date
2025/08/28
Date Created
2020/07/13
Author
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