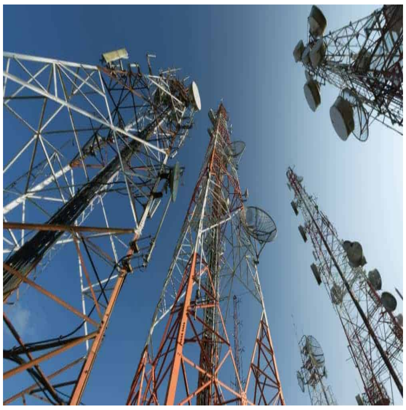

Market Crash 2.0: Is it Time to Bet on Shaw Communications (TSX:SJR.B) Stock?

Description

After a stellar performance over the last five months, the S&P/TSX Composite Index has been under pressure this month. So far, the index is trading 3.2% down. The concerns over the second wave of COVID-19 infections across the world have dragged the index down. Meanwhile, I expect the equity markets to be highly volatile for the rest of this year, given the uncertainty over the impact of the pandemic and weak economic indicators.

So, it is the right time to buy defensive stocks. With the telecommunication services becoming an essential part of our day-to-day activities, I think **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) could be a good fit for your portfolio. Let's look at its recent performance and outlook.

Third-quarter performance

In the third quarter, Shaw Communications's revenue fell by 0.8% on a year-over-year basis to $1.31 billion. The decline in the revenue from its wireline segment dragged the company's overall revenue down. Due to the temporary closure of retail stores and lower promotions amid the pandemic, its wireline segment witnessed a decline of 55,300 in its RGUs (revenue generating units).

Meanwhile, the revenue from its wireless segment grew 1.2%, driven by a strong performance in the service division. The service division's revenue increased by over 16% due to a higher subscriber base and increased penetration of its big gig data plans.

Despite the decline in its top line, Shaw Communications's adjusted EBITDA increased by over 15%. The adoption of IFRS 6, growth in its postpaid revenue-generating units, lower customer acquisition costs, and a favourable impact from the payment of $15 million in the previous year's quarter to address certain IP licensing matters drove the company's EBITDA.

Liquidity and dividends

The company generated free cash flow of $221 million during the third quarter, representing an increase of 27% from its previous year's quarter. Meanwhile, at the end of the third quarter, the company had liquidity of $1.5 billion, with $650 million in cash. So, the company has ample liquidity to support its expansion plans.

Meanwhile, the company pays monthly dividends. For this month, the company has paid dividends of $0.09875 per share. So, the company's forward dividend yield stands at a healthy 4.9%.

Outlook

Currently, more people prefer to work and learn from their homes due to health concerns, which has increased the demand for higher speed connections. To address these needs, the company has launched Fibre+ Gig Internet service, which offers faster speed and unlimited data.

Also, recently, the company has launched Shaw Mobile in Alberta and British Columbia targeting internet consumers. Through Shaw Mobile, the customers can avail WiFi experience even on the go, where they will be automatically connected to the company's thousands of hotspots across Western Canada. So, this service could save customers on their wireless data bills.

Given the recessionary environment, the company's value proposition could attract more customers, driving its subscription. So, the company's growth prospects look healthy.

Bottom line

Amid the pandemic, Shaw Communications has lost close to 9% of its value this year. The decline in its stock price has dragged the company's valuation into an attractive territory. Currently, the company's forward price-to-earnings multiple stands at 18.3. So, given its recession-proof business model, high dividend yield, and attractive valuation multiple, I think Shaw Communications would be an excellent defensive bet.

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