Income Investors: Should You Buy BCE (TSX:BCE) or Shaw (TSX:SJR.B)?

Description

BCE (TSX:BCE)(NYSE:BCE) and **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) is the classic David versus Goliath battle that income investors have been paying close attention to.

As number one of the Big Three Canadian telecoms, BCE has been a dominant force in the scene for decades. The behemoth boats a $50 billion market cap, dwarfing Canada's newest wireless competitor Shaw, which sports a mere $12.3 billion market cap at the time of writing.

There's no question that Shaw has a heck of a lot more room to run with its wireless business, as it looks to grab an equal slice of the Canadian telecom pie with its low-cost offering. But it'd be foolish (that's a lower-case "f") to count BCE out of the game, with its deep pockets and its 5G advantage that could help it defend its subscriber base over the coming years, as new telecom tech becomes normalized.

While Shaw's low-cost advantage could literally pay huge dividends, given that it will be late to the party with the 5G arms race compared to the likes of BCE, the Shaw thesis is that Canadians will value lower-cost LTE offerings longer over the pricier 5G, which may take a tad longer for Canadians to adapt to given the coronavirus recession in which we currently find ourselves.

BCE vs. Shaw: A side-by-side comparison

BCE and Shaw sport bountiful yields of 6% and 5%, respectively, and are in a position to grow modestly out of this crisis. BCE shares look a tad on the pricier side, with shares currently trading at 20.3 times trailing earnings, 2.2 times sales, and 3.0 times book value.

Shaw stock trades at 18.5 times trailing earnings, 2.3 times sales and 2.0 times book value. On a price-to-book basis Shaw is far cheaper, likely because of the slightly lower yield and uncertainties relating to growth in its wireless segment, which is still in its early days.

In terms of value based on traditional financial ratios, Shaw is the clear winner. On terms of the growth outlook, I also think Shaw's the winner when you consider Shaw Mobile's incredible value proposition that's likely to find a spot with Canadians amid recession-induced belt-tightening. Shaw's Freedom Mobile banner is also gaining significant traction at the expense of its peers — a trend I expect will accelerate as many Canadians opt to skip the 5G phones in 2021 and stay on a lower cost LTE plan.

The COVID impact

BCE has been feeling a bit of pressure at the hands of COVID. The media business was a major sore spot and the wireless business wasn't great either, as Canadians quarantined in their homes during the early part of the second quarter. In the face of further COVID waves, I expect BCE will take a similar hit to the chin and the recent COVID-induced pullback in the stock is warranted.

Heck, I think there could be more downside in the name given its rich multiple and wouldn't be surprised if the stock sports a 7% yield through the worst of the next COVID wave.

With no media business, Shaw held its ground pretty well during the worst of the first COVID wave. Fiscal third-quarter results were pretty much in-line with expectations. EBITDA margins expanded and as capex goes on a downtrend, I expect FCFs could really surge over the year ahead.

As a second wave hits, I suspect Shaw is in better shape to roll with the punches. Its new Shaw Mobile offering could allow it to thrive in the recessionary environment at the incumbents' expense. As such, I think Shaw blows BCE out of the water for those looking for COVID resilience.

Foolish takeaway on BCE vs. Shaw

Shaw is the hands-down winner in terms of value, recession- and pandemic-resilience, and growth. While Shaw is late to the wireless party, I do think that recession-induced demand for lower-cost LTE will propel Shaw's top-line and allow it ample time to catch up on the 5G front.

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Date
2025/09/06
Date Created
2020/10/07
Author
joefrenette