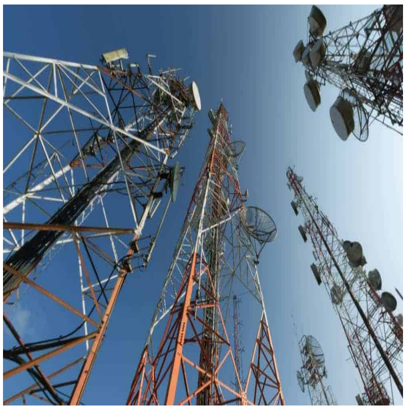

What Is the Right Telecom to Invest in?

Description

Canada's telecoms remain some of the best long-term investment options for your portfolio. There are plenty of reasons for that view, but chief among them is steady growth, reliable (and recurring) revenue streams, and handsome dividends. But what is the right telecom to invest in?

The telecoms are very similar in the services that they offer, which makes answering that question difficult. Today, we'll take a look at both **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) and **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) to see which is the better investment.

The case for Rogers

Rogers is clearly the goliath of this comparison. The company offers what is arguably the largest wireless network of Canada's telecoms, boasting nationwide coverage. Additionally, the company has expanded outside the traditional realm of telecoms to amass a sizable media empire. That media segment includes media publications, radio and TV stations, and an interest in professional sports teams.

In terms of numbers, Rogers reported results for the third quarter just last week. In that quarter, Rogers reported postpaid net subscriber gains of 138,000 from its wireless segment in the most recent quarter. This represents a 34% increase over the prior quarter, and Rogers also managed to improve postpaid churn to 1.10%.

Overall, the company earned $512 million, or $1.01 per diluted share, in the quarter. In the same quarter last year, Rogers earned $593 million, or $1.14 per diluted share. The drop was attributed to the ongoing COVID-19 pandemic, but worth noting is that the results were substantially better than the prior quarter, reflecting the gradual reopening of business.

Interestingly, despite the drop in earnings, Rogers did manage to generate more free cash. In the most recent quarter, the company managed to generate $868 million in free cash, reflecting a solid 13% gain over the same period last year.

Turning to dividends, Rogers offers investors a quarterly dividend with a 3.45% yield. While that yield may seem lower than its peers, the difference is well founded. Several years ago, Rogers chose to prioritize growth initiatives and debt reduction over annual dividend hikes. As a result, the company is well financed and able to weather a prolonged slowdown.

The case for Shaw

Shaw is a smaller telecom that lacks the national footprint that Rogers has. This is both a blessing and a curse. With a smaller footprint, Shaw can aggressively target selective markets and draw customers away from the Big Three telecoms (which includes Rogers).

Speaking of a smaller footprint, unlike Rogers, Shaw doesn't have a media segment. Shaw's media holdings were sold off several years ago to raise capital to fund a wireless segment. This makes Shaw an intriguing option for investors looking for the right telecom.

Turning to results, Shaw is set to announce results for the fourth quarter later this week. Until then, let's look back at the performance of the stock during Q3. As a reminder, for much of that quarter, Shaw (and all other businesses) remained closed due to the pandemic. During the quarter, Shaw saw its wireless business report a postpaid subscriber growth of 2,200. Postpaid churn in the quarter was a record 0.96%. Shaw also managed to grow ARPU during the quarter by 2.6%.

Shaw's mobile offering may still be in its infancy, but the company has already cemented the number four spot nationally. Additionally, the company recently announced a new mobile service dubbed “Shaw Mobile,” which targets existing Shaw internet and TV customers for the purposes of bundling.

In terms of a dividend, Shaw offers investors a handsome monthly payout that carries a yield of 5.10%. This represents a significant bump over Rogers, both in terms of frequency and yield. Like Rogers, Shaw does not provide annual bumps to its dividend. Instead, Shaw is investing that money into growing its wireless network.

The right telecom for your portfolio?

Shaw and Rogers are great investment options. They both operate in a defensive segment of the market and have done well to weather the financial stress of the pandemic. Both stocks also offer handsome dividends that lack the annual upticks found elsewhere on the market.

In my opinion, Shaw is the right telecom to invest in at this juncture. The company's focus on growing its mobile segment along with its monthly payout make the stock hard to ignore.

CATEGORY

1. Dividend Stocks
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2. NYSE:SJR (Shaw Communications Inc.)
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dafxentiou