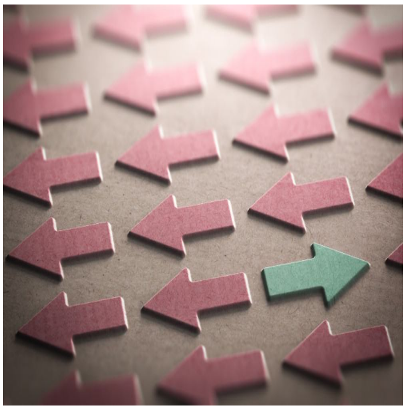

This Dirt-Cheap Stock Is a Contrarian Opportunity

Description

Boardroom drama is never healthy for a company's stock price. But when the drama spills over into a potential acquisition target, it creates an opportunity. That's what seems to be happening with **Shaw Communications** (TSX:SJR.B)(NYSE:SJR).

The stock has nearly doubled in value ever since it became an acquisition target for **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) in a deal that values it at $20 billion. While the deal was announced early in the year, it has stagnated, with the stock trading in a tight trading range in recent months awaiting regulatory approval.

The ongoing family feud at Rogers has made investors uneasy about the merger, too. Shaw stock dipped in October, which created an opportunity for bargain hunters. Since then, it has recovered, but the price is still below a reasonable estimate of the company's fair value.

Here's a closer look.

Recent results

There is no doubt that Shaw Communications is a top pick in the Canadian telecommunication sector. The company is fresh from delivering solid fourth-quarter and full-year results.

The company delivered a 1.9% full-year increase in revenue to $5.50 billion. Adjusted EBITDA climbed 4.6% to $2.50 billion, with free cash flow jumping 28% to $961 million. Wireless revenue has been increasing steadily, going by the 9.3% growth in fiscal 2021.

As you can see, the numbers look increasingly impressive. However, the stock isn't driven by fundamentals right now. Instead, investors are betting on the potential acquisition deal.

Valuation

Shaw Communications's stock valuation is firmly in line with its peers. The stock's price-to-earnings multiple is 19. The company offers a monthly distribution of $0.099 a share, which works out to a robust dividend yield of 3.3%. Consequently, it is an ideal pick for anyone looking to generate some passive income.

By comparison, **Telus** trades at a price-to-earnings ratio of 33, while **BCE** trades at a ratio of roughly 20. Shaw is cheaper but also smaller than those two, which means it has more room to grow or acquire market share.

While the stock has skyrocketed to all-time highs amid the Rogers acquisition talk, Shaw Communications still has what it takes to generate significant shareholder value going forward. Solid financial results underscore a company in a growth phase. Additionally, a dividend yield of 3.3% affirms its ability to generate significant free cash flow.

With or without a deal, Shaw Communications is a valuable asset. However, the current market price is still 10% lower than the headline figure Rogers has offered. Combined with the dividend yield, Shaw stock could deliver a 13% return relatively quickly.

Bottom line

Shaw's stock took a dip when trouble erupted in the Rogers boardroom. Since then, the stock has recovered but is still below its acquisition target price. This could be an undervalued dividend-growth opportunity for investors. Keep an eye on it.

CATEGORY

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2. Investing

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2. NYSE:SJR (Shaw Communications Inc.)
3. TSX:RCI.B (Rogers Communications Inc.)
4. TSX:SJR.B (Shaw Communications)

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Date
2025/07/20
Date Created
2021/11/28
Author
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