



Shaw Communications (SJR)

Updated October 16th, 2018 by Josh Arnold

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	11.2%	Volatility Percentile:	43.2%
Fair Value Price:	\$22	5 Year Growth Estimate:	8.0%	Momentum Percentile:	22.3%
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.8%	Growth Percentile:	71.8%
Dividend Yield:	5.0%	5 Year Price Target	\$32	Valuation Percentile:	27.4%
Dividend Risk Score:	F	Retirement Suitability Score:	F	Total Return Percentile:	52.9%

Overview & Current Events

Shaw Communications was founded in 1966 as the Capital Cable Television Company. It has since grown to become Western Canada's leading content and network provider, catering to both consumers and businesses. The company produces over \$5 billion in revenue annually and has a market capitalization of \$12.4 billion. The stock is listed in both Canada and the US, and we'll be using Canadian dollars throughout the report.

Shaw reported Q3 earnings on 6/28/18 and results were strong. Total revenue rose 7%, as did operating income, as strength in the Business and Wireless segments helped drive Shaw's results. The company added more than 54,000 net postpaid subscribers during Q3 and delivered average revenue per user growth of 8%. Shaw also announced its retail partnership with Loblaws, a Canadian supermarket chain, will expand to 100 stores. In addition, it signed a distribution agreement with Walmart that will see Shaw's services in 140 stores. These are certainly positive developments for Shaw's future growth, and we're out with a \$1.30 earnings-per-share estimate for this year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$1.13	\$1.24	\$1.23	\$1.57	\$1.61	\$1.63	\$1.84	\$1.79	\$0.92	\$1.11	\$1.30	\$1.90
DPS	\$0.71	\$0.82	\$0.86	\$0.90	\$0.96	\$1.01	\$1.08	\$1.16	\$1.19	\$1.19	\$1.20	\$1.40
Shares	428	430	433	438	444	453	462	474	486	497	503	520

Shaw's earnings-per-share history is a bit lumpy and over the long run, it has not produced much in the way of growth. However, we see current strategic initiatives driving outsized earnings growth in the coming years. In total, we are forecasting 8% earnings-per-share growth annually moving forward.

These gains will come from continued revenue growth mostly, as the company's margins have been roughly flat for several years. Revenue gains will come from the company's growing user base as well as Shaw's ability to boost average revenue per user. Q3 saw robust gains in both of these metrics and given the retail partnerships with Loblaws and Walmart – chains with huge amounts of foot traffic – Shaw certainly looks poised to deliver high rates of revenue growth in the coming years. While we are forecasting stronger growth than what Shaw has historically been able to produce, the company seems to have turned the corner on growth. In addition, our estimate of \$1.90 in earnings-per-share in 2023 is roughly equal to what Shaw produced in 2014, so it certainly is within reason to expect that again.

With recent years' dividends exceeding earnings, we believe management will be a bit more cautious with dividend increases in the next few years. However, Shaw's yield is already high, so slower growth is okay for income investors.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	19.5	16.1	16.3	13.5	12.5	14.2	14.0	15.9	27.4	24.9	18.6	17.0
Avg. Yld.	3.2%	4.1%	4.3%	4.3%	4.8%	4.4%	4.2%	4.1%	4.7%	4.3%	5.0%	4.4%

Shaw's valuation has moved around a lot in the past decade and today, sits at 18.6 times our 2018 earnings-per-share estimate. That compares somewhat unfavorably to our estimate of fair value at 17 times earnings, implying a modest

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1.8% headwind to total annual returns. The yield should move down slightly over time as dividend growth slows, but Shaw should have at least a mid-4% yield for many years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	45%	39%	45%	44%	42%	43%	39%	30%	30%	30%	30%	30%
Debt/A	73%	72%	73%	71%	68%	65%	63%	66%	63%	57%	56%	55%
Int. Cov.	4.0	4.1	4.0	3.4	3.9	4.4	5.3	4.1	3.5	3.9	4.0	4.5
Payout	63%	66%	70%	57%	60%	62%	59%	65%	129%	107%	92%	74%
Std. Dev.	37%	25%	19%	15%	12%	16%	14%	17%	15%	12%	15%	18%

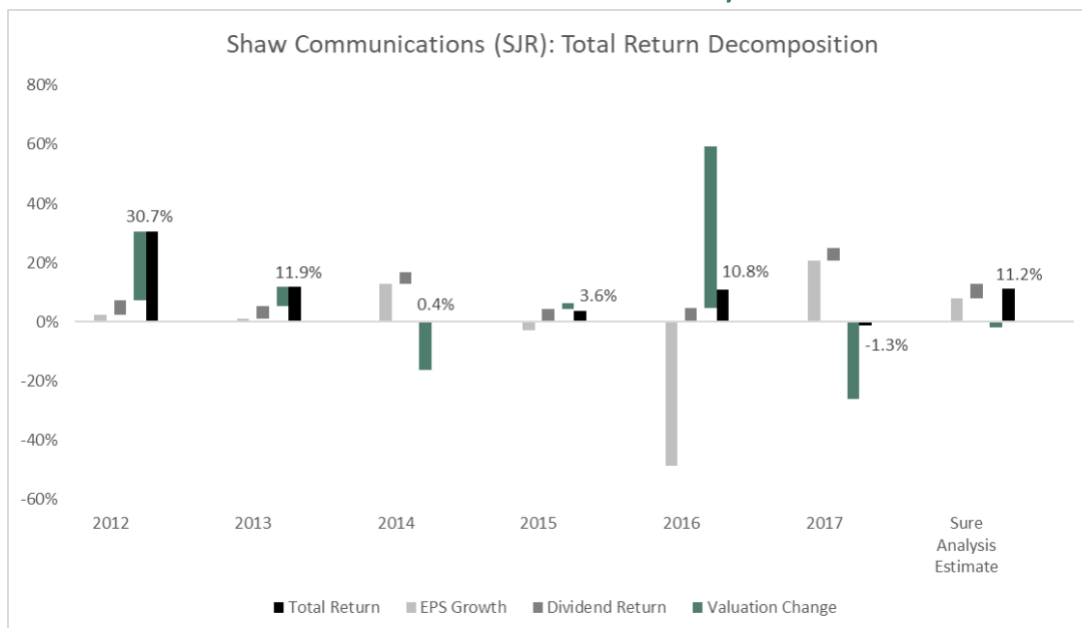
Shaw's quality metrics have stabilized in recent years after some meaningful declines in margins. We see margins as remaining flat moving forward, congruent with the last few years. Debt has come down off of much higher levels and today, Shaw's balance sheet leverage is quite low by telecommunications company standards. Interest coverage is more than sufficient and while the payout ratio is very high, we believe it will come down over time as earnings growth outpaces that of the payout. In total, Shaw's quality metrics are more than adequate.

Shaw's competitive advantage is in its leadership position in Western Canada, as well as its partnerships with Loblaw's and Walmart. Indeed, we see these factors as driving growth for years to come. It is not immune to recession but telecommunications companies like Shaw tend to hold up very well, and we think this will remain the case.

Final Thoughts & Recommendation

Shaw is slightly overvalued at present but given its robust growth prospects and high yield, we rate the stock a buy. Its recession resistance is another positive factor as we see total annual returns of 11.2% in the coming years. This will consist of the 5% yield, 8% earnings-per-share growth, and a 1.8% headwind from a lower valuation. Shaw offers investors a rare mix of strong growth and a high yield, and we think it is a buy. With that said, we note that the company earns an F rating for both Dividend Safety and Retirement Suitability due to its high dividend payout ratio.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	3105	3390.9	3717.6	4741.0	4998.0	5142.0	5241.0	4486.0	4518.0	4882.0
Gross Profit	1408	1540.6	1760.1	2051.0	2127.0	2220.0	2204.0	1998.0	1955.0	1943.0
Gross Margin	45%	45%	47%	43%	43%	43%	42%	45%	43%	40%
D&A Expense	643.3	449.8	559.7	739.0	813.0	858.0	768.0	868.0	843.0	946.0
Operating Profit	903.1	957.4	1103.9	1316.0	1319.0	1366.0	1439.0	1134.0	1115.0	999.0
Operating Margin	29.1%	28.2%	29.7%	27.8%	26.4%	26.6%	27.5%	25.3%	24.7%	20.5%
Net Profit	671.6	536.5	532.7	451.0	728.0	746.0	857.0	856.0	1220.0	851.0
Net Margin	21.6%	15.8%	14.3%	9.5%	14.6%	14.5%	16.4%	19.1%	27.0%	17.4%
Free Cash Flow	514.8	580.0	646.6	340.0	344.0	366.0	624.0	471.0	609.0	-111.0
Income Taxes	16.4	191.2	183.5	229.0	214.0	283.0	308.0	218.0	178.0	190.0

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets (\$B)	8.36	8.93	10.15	12.59	12.72	12.73	13.25	14.75	15.38	14.37
Cash & Equivalents	N/A	253.9	216.7	443.0	427.0	422.0	637.0	398.0	405.0	507.0
Accounts Receivable	188.1	194.5	196.4	443.0	436.0	496.0	506.0	N/A	300.0	278.0
Inventories	51.8	52.3	53.8	97.0	102.0	96.0	119.0	60.0	65.0	109.0
Goodwill & Int. Ass.	4864	5009.4	5577.7	8004.0	8070.0	7851.0	7896.0	9147.0	8765.0	7715.0
Total Liabilities	6103	6439.2	7383.4	8910.0	8688.0	8319.0	8313.0	9697.0	9684.0	8219.0
Accounts Payable	655.8	563.1	623.1	99.0	50.0	71.0	44.0	887.0	107.0	73.0
Long-Term Debt	2751	3150.5	3982.2	5257.0	5263.0	4866.0	4690.0	5669.0	5612.0	4300.0
Shareholders' Equity	2255	2495.5	2770.5	3406.0	3753.0	4182.0	4702.0	4812.0	5697.0	6153.0
D/E Ratio	1.2	1.3	1.4	1.5	1.4	1.2	1.0	1.2	1.0	0.7

Profitability Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	8.1%	6.2%	5.6%	4.0%	5.8%	5.9%	6.6%	6.1%	8.1%	5.7%
Return on Equity	31.6%	22.6%	20.2%	14.6%	20.3%	18.8%	19.3%	18.0%	23.2%	14.4%
ROIC	13.3%	10.1%	8.6%	5.7%	8.0%	8.0%	9.1%	8.4%	11.1%	7.8%

Note: All figures in millions of Canadian Dollars unless otherwise noted.

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