



Shaw Communications Inc. (SJR)

Updated January 15th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$26	5 Year CAGR Estimate:	4.5%	Volatility Percentile:	24.2%
Fair Value Price:	\$18	5 Year Growth Estimate:	7.0%	Momentum Percentile:	42.2%
% Fair Value:	148%	5 Year Valuation Multiple Estimate:	-7.1%	Growth Percentile:	64.5%
Dividend Yield:	4.6%	5 Year Price Target	\$25	Valuation Percentile:	39.8%
Dividend Risk Score:	F	Retirement Suitability Score:	D	Total Return Percentile:	61.4%

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 about \$5.5 billion in revenue annually and has a market capitalization of \$13.4 billion. The stock is listed in both Canada and the US, and we'll be using Canadian dollars throughout the report.

Shaw reported Q1 earnings on 1/14/19 and results were excellent. Revenue grew an impressive 8.8% as Shaw produced strong growth in its wireless business. Postpaid subscribers rose by more than 86,000 during the quarter while average revenue per user soared 12% year-over-year to \$41.99. In addition, the company saw a significant improvement in its postpaid churn rate to 1.28% in Q1, which is down from 1.64% in the year-ago period. The company continues to move the needle for customers that want premium smartphones and big data plans as it has invested in recent years to capture these subscribers.

Operating income rose 13.5% during Q1 as margins continue to improve for Shaw. That helped lead earnings-per-share more than 60% higher year-over-year to 36 cents from 22 cents. Free cash flow also more than doubled, rising from \$64 million in last year's Q1 to \$164 million this quarter. Overall, Shaw's Q1 was very strong and we're reiterating our expectation for \$1.40 in earnings-per-share for this fiscal year after a great first quarter showing.

In addition, Shaw continues to make progress on its long-term strategic plans. First, it is deploying its 700Mhz spectrum, which is about one-quarter complete. This will provide wireless customers with farther-reaching coverage and better indoor reception. Second, Shaw completed the launch of 140 retail locations in Q1 in partnership with Walmart, taking the total to more than 600 retail locations with Walmart, Loblaws and Freedom Mobile combined. This is critical for the company's long-term growth as it works to grow the subscriber base, so this progress is reassuring.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.24	\$1.23	\$1.57	\$1.61	\$1.63	\$1.84	\$1.79	\$0.92	\$1.11	\$1.01	\$1.40	\$1.96
DPS	\$0.82	\$0.86	\$0.90	\$0.96	\$1.01	\$1.08	\$1.16	\$1.19	\$1.19	\$1.20	\$1.20	\$1.40
Shares	430	433	438	444	453	462	474	486	497	503	506	522

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 mentioned above driving outsized earnings growth in the coming years. In total, we are forecasting 7% 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, as was evident in Q1. Recently announced retail partnerships with Loblaws and Walmart – chains with huge amounts of foot traffic – should help Shaw deliver high rates of revenue growth in the coming years, and Shaw is delivering on that in earnest as of Q1. While we are forecasting stronger growth than what Shaw has historically been able to produce, the company seems to have turned the corner. Fiscal 2019 will see capex lower by about \$200 million, which will help drive free cash flow above \$500 million. In addition, management guided for \$140 million in cost savings

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this year, helping to drive earnings and free cash flow higher. We think Shaw has done the necessary investing for future growth and in 2019, it will begin to reap some of those gains. Q1 results would seem to support this view.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	16.1	16.3	13.5	12.5	14.2	14.0	15.9	27.4	24.9	18.9	18.8	13.0
Avg. Yld.	4.1%	4.3%	4.3%	4.8%	4.4%	4.2%	4.1%	4.7%	4.3%	4.8%	4.6%	5.6%

Shaw's valuation has moved around a lot in the past decade and today, sits at 18.8 times our 2019 earnings-per-share estimate. That compares to our estimate of fair value at 13 times earnings, which we've downgraded based upon peer valuations that have fallen significantly of late. That implies that Shaw is currently overvalued by a wide margin and should produce a 7.1% headwind to total annual returns as a result. We see a modestly higher payout and lower valuation combining to send the yield significantly higher in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	66%	70%	57%	60%	62%	59%	65%	129%	107%	118%	86%	72%

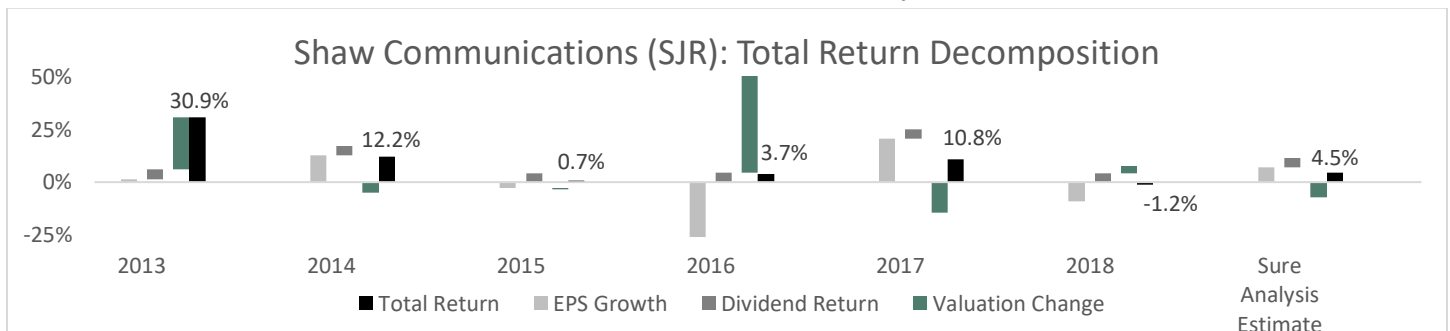
Shaw's quality metrics have stabilized in recent years after some meaningful declines in margins. We see margins as remaining flat moving forward, congruent with the last few years. Debt has come down off of much higher levels and today, Shaw's balance sheet leverage is quite low by telecommunications 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.

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 quite overvalued despite its robust growth prospects and high yield, and we rate the stock a sell as a result. We see total annual returns of just 4.5% in the coming years, consisting of the 4.6% yield, 7% earnings-per-share growth, and a 7.1% headwind from the valuation. While Shaw offers investors a very high yield, the risk to the valuation causes us to rate it a sell. Importantly, we note that the company's high yield and short dividend history causes it to earn an F rating for Dividend Safety, so investors ought to be mindful of the sustainability of the dividend moving forward.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3391	3718	4741	4998	5142	5241	4486	4518	4882	5239
Gross Profit	1541	1760	2051	2127	2220	2204	1998	1955	1943	1643
Gross Margin	45.4%	47.3%	43.3%	42.6%	43.2%	42.1%	44.5%	43.3%	39.8%	31.4%
D&A Exp.	450	560	739	813	858	768	868	843	946	1015
Operating Profit	957	1104	1316	1319	1366	1439	1134	1115	999	631
Operating Margin	28.2%	29.7%	27.8%	26.4%	26.6%	27.5%	25.3%	24.7%	20.5%	12.0%
Net Profit	536	533	451	728	746	857	856	1220	851	60
Net Margin	15.8%	14.3%	9.5%	14.6%	14.5%	16.4%	19.1%	27.0%	17.4%	1.1%
Free Cash Flow	580	647	340	344	366	624	471	609	-111	19
Income Tax	191	183	229	214	283	308	218	178	190	143

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	8935	10154	12588	12722	12732	13250	14746	15382	14373	14424
Cash & Equivalents	254	217	443	427	422	637	398	405	507	384
Accounts Receivable	194	196	443	436	496	506	468	300	278	255
Inventories	52	54	97	102	96	119	60	65	109	101
Goodwill & Int. Ass.	5009	5578	8004	8070	7851	7896	9147	8765	7715	7762
Total Liabilities	6439	7383	8910	8688	8319	8313	9697	9684	8219	8467
Accounts Payable	563	623	99	50	71	44	887	107	73	971
Long-Term Debt	3150	3982	5257	5263	4866	4690	5669	5612	4300	4351
Shareholder's Equity	2495	2771	3406	3753	4182	4702	4812	5697	6153	5956
D/E Ratio	1.26	1.44	1.54	1.40	1.16	1.00	1.18	0.99	0.70	0.73

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.2%	5.6%	4.0%	5.8%	5.9%	6.6%	6.1%	8.1%	5.7%	0.4%
Return on Equity	22.6%	20.2%	14.6%	20.3%	18.8%	19.3%	18.0%	23.2%	14.4%	1.0%
ROIC	10.1%	8.6%	5.7%	8.0%	8.0%	9.1%	8.4%	11.1%	7.8%	0.6%
Shares Out.	430	433	438	444	453	462	474	486	497	503
Revenue/Share	7.87	8.57	10.87	11.31	11.43	11.42	9.52	9.39	9.92	10.42
FCF/Share	1.35	1.49	0.78	0.78	0.81	1.36	1.00	1.27	-0.23	0.04

Note: All figures in millions of Canadian Dollars unless per share or indicated otherwise.

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