



Shaw Communications Inc. (SJR)

Updated July 6th, 2019 by Quinn Mohammed

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	7.2%	Volatility Percentile:	23.7%
Fair Value Price:	\$22	5 Year Growth Estimate:	6.5%	Momentum Percentile:	33.0%
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.7%	Growth Percentile:	66.4%
Dividend Yield:	4.4%	5 Year Price Target	\$31	Valuation Percentile:	26.1%
Dividend Risk Score:	F	Retirement Suitability Score:	D	Total Return Percentile:	40.6%

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 \$13.8 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 June 27th, 2019, and consolidated revenues increased by 2.7% year-over-year while consolidated operating income before restructuring costs and amortization increased 3.8% Year-over-year. The company had an addition of roughly 61,000 Wireless postpaid net subscribers and grew their average billing per unit ("ABPU") by 6.2% YoY. The company has also succeeded in lowering their postpaid customer churn rate even further to 1.18%, down from 1.36% last year.

Net income remained positive with earnings of \$229 million, up from a loss of \$99 million one year ago. As a result, diluted earnings per share came in at \$0.44 vs a loss of \$0.20 last year. Year-to-date Shaw has earnings per share of \$1.10 vs a loss of \$0.34 in the same period one year ago. Free cash flow increased 5.4%, from \$167 million to \$176 million. Shaw continues to deliver strong results, and thus we reiterate our expectation for \$1.40 in earnings-per-share for this fiscal year after a significant increase in YoY EPS to date.

In the quarter the company also completed the sale of all 80.6 million of its shares of Corus Entertainment Inc. for net proceeds of roughly \$526 million. At the time the company had 38% ownership of Corus Entertainment.

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	515	525

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 6.5% 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 the case so far in 2019. 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. 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 \$135 million in cost savings this year, helping to drive earnings and free cash flow higher.

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 to make up for lower growth.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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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	19.3	16.0
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 19.3 times our 2019 earnings-per-share estimate. While Shaw's valuation multiple has grown due to its entrance into the Canadian Wireless business, it still depends heavily on its consumer wireline business, so we estimate a fair value of 16 times earnings. That implies that Shaw is currently overvalued and should produce a 3.7% 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%	71%

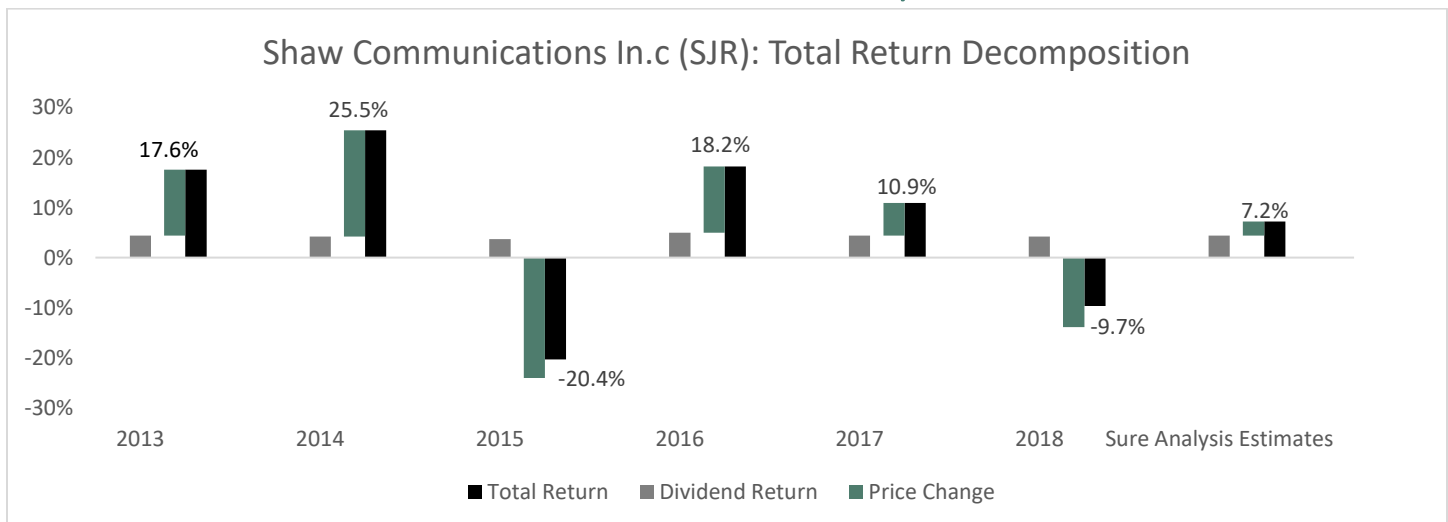
Shaw's quality metrics have stabilized after some meaningful declines in margins. We see margins as remaining flat moving forward, congruent with the last few years. Debt has come down off of much higher levels and today, Shaw's balance sheet leverage is quite low by telecommunications company standards. 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 Loblaws 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 currently overvalued, despite its robust growth prospects and high yield, it trades at 121% our estimated fair value. We see total annual returns of 7.2% in the coming years, consisting of a 4.4% yield, 6.5% earnings-per-share growth, and a 3.7% headwind from the valuation. While Shaw offers investors a high yield, the risk due to valuation is slightly greater and could render it null. We rate Shaw Communications a hold.

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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