



Shaw Communications Inc. (SJR)

Updated January 15th, 2019 by Quinn Mohammed

Key Metrics

Current Price:	\$20	5 Year CAGR Estimate:	8.3%	Market Cap:	\$10.4B
Fair Value Price:	\$22	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	3/13/2020
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.4%	Dividend Payment Date:	3/30/2020
Dividend Yield:	4.6%	5 Year Price Target	\$25	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	7.8%

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 \$4.1 billion USD in revenue annually and has a market capitalization of \$10.4 billion. The stock is listed in both Canada and the US.

Shaw reported first quarter results on January 13th and reported consolidated revenue increased by 2.1% to \$1.06 billion USD. Adjusted EBITDA increased 8.1% year-over-year to \$451 million USD.

The company added 67,000 customers to the Freedom Mobile segment. Wireless service revenue increased 18.1% as the customer base grows to over 1.7 million customers. First quarter average billing per unit ("ABPU") grew by 4.5%. Postpaid churn increased for the quarter to 1.5%, primarily attributed to the intensity of competitive offers during the holiday shopping period.

Free cash flow increased 12.3% to \$140 million USD, due to lower capital expenditures and cash taxes. Net income was down 12.4% from last year to \$125 million USD for the first quarter of 2020. The decrease was almost entirely attributable to equity income recorded in Q1 2019 for the sale of the company's investment in Corus Entertainment Inc. Diluted earnings per share were lower this year by 14% to \$0.24 USD.

Management is guiding for 2020 adjusted EBITDA to grow 11% to 12% (excluding IFRS 16, adjusted EBITDA would grow 4% to 5%), with capital expenditures of \$0.84 billion USD and free cash flow of \$537 million.

In fiscal 2019, Freedom mobile launched 19 new wireless markets to cover an additional population of 1.4 million Canadians; increasing their total footprint to cover approximately 18 million Canadians, or nearly half the population.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.23	\$1.54	\$1.61	\$1.52	\$1.58	\$1.29	\$0.68	\$0.88	\$0.74	\$1.09	\$1.16	\$1.55
DPS	\$0.86	\$0.88	\$0.96	\$0.94	\$0.93	\$0.84	\$0.89	\$0.95	\$0.87	\$0.91	\$0.91	\$1.07
Shares¹	433	438	444	453	462	474	486	497	503	515	518	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 are forecasting 6% 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 in 2019 and so far in 2020. 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 2020 will see cost savings of about \$153 million USD, which will help drive free cash flow to approximately \$537 million USD.

¹ In millions

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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.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.3	13.5	12.5	14.2	14.0	15.9	27.4	24.9	18.9	18.3	17.2	16.0
Avg. Yld.	4.3%	4.3%	4.8%	4.4%	4.2%	4.1%	4.7%	4.3%	4.8%	4.6%	4.6%	4.4%

Shaw's valuation has moved around a lot in the past decade and today sits at 17.2 times our 2020 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 1.4% headwind to total annual returns as a result. The yield should remain roughly in-line with today over the next coming years as the cash dividend has stagnated.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	70%	57%	62%	59%	65%	131%	108%	118%	83%	78%	69%	70%

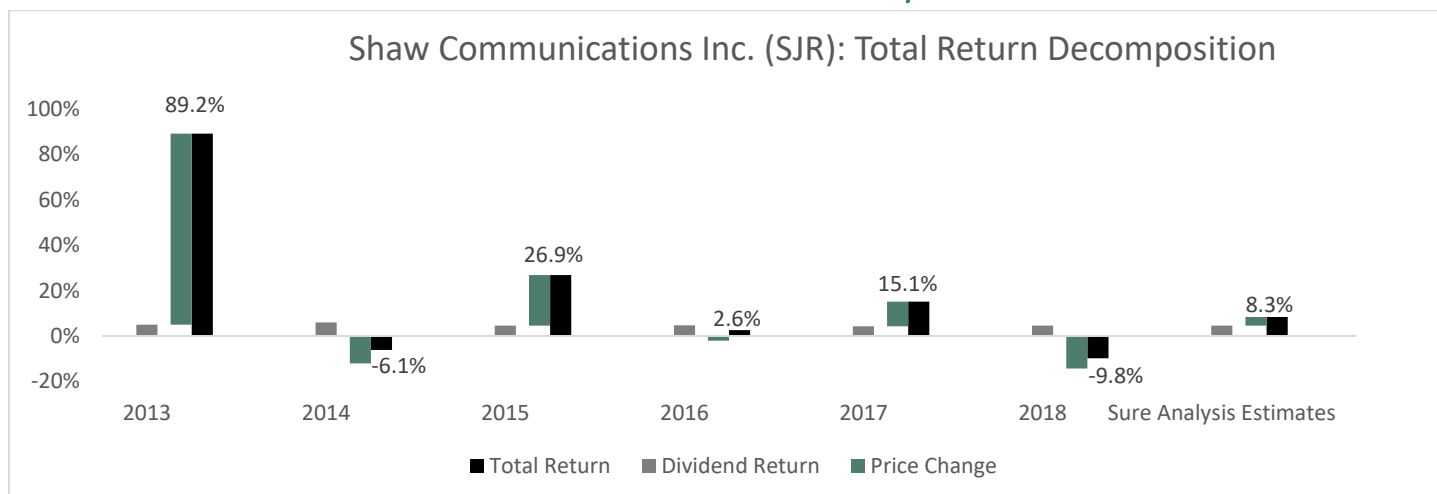
Shaw's quality metrics have stabilized after some meaningful declines in margins. We see margins as remaining flat moving forward, congruent with the last few years. Debt has come down off much higher levels and today, Shaw's balance sheet leverage is quite low by telecommunications company standards. Interest coverage is good 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 currently overvalued, despite its robust growth prospects and high yield, it trades at 108% our estimated fair value. We see total annual returns of 9.2% in the coming years, consisting of a 4.6% yield, 6.0% earnings-per-share growth, and a 1.4% headwind from the valuation. While Shaw offers investors a high yield, there is valuation risk which has been tempered due to recent earnings growth. We rate Shaw Communications a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3,556	4,792	4,951	5,089	4,867	3,720	3,406	3,696	4,060	4,028
Gross Profit	1,684	2,073	2,107	2,197	2,047	1,657	1,474	1,471	1,609	1,625
Gross Margin	47.3%	43.3%	42.6%	43.2%	42.1%	44.5%	43.3%	39.8%	39.6%	40.3%
Operating Profit	535	747	805	849	713	720	636	716	804	785
Operating Margin	1,056	1,330	1,307	1,352	1,336	940	841	756	807	842
Net Profit	29.7%	27.8%	26.4%	26.6%	27.5%	25.3%	24.7%	20.5%	19.9%	20.9%
Net Margin	510	456	721	738	796	710	920	644	31	551
Free Cash Flow	14.3%	9.5%	14.6%	14.5%	16.4%	19.1%	27.0%	17.4%	0.8%	13.7%
Income Tax	619	344	341	362	579	391	459	(84)	41	204

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	9,576	12,859	12,811	12,077	12,202	11,136	11,750	11,421	11,111	11,707
Cash & Equiv.	204	453	430	400	587	301	309	402	296	1,082
Accounts Rec.	185	453	439	470	466	353	229	227	235	277
Inventories	51	99	103	91	110	45	50	47	47	64
Goodwill	5,260	8,176	8,126	7,447	7,272	6,908	6,696	6,112	5,977	6,180
Total Liabilities	6,963	9,102	8,749	7,891	7,656	7,323	7,398	6,514	6,515	7,004
Accts. Payable	588	101	50	67	41	670	82	720	75	85
LT Debt	3,755	5,370	5,300	4,615	4,319	4,281	4,287	3,406	3,350	4,001
Sh.Equity	2,613	3,479	3,779	3,967	4,330	3,634	4,352	4,906	4,596	4,700
D/E Ratio	1.44	1.54	1.40	1.16	1.00	1.18	0.99	0.69	0.73	0.85

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	5.7%	4.1%	5.6%	5.9%	6.6%	6.1%	8.0%	5.6%	0.3%	4.8%
Return on Equity	20.8%	15.0%	19.9%	19.1%	19.2%	17.8%	23.0%	13.9%	0.6%	11.9%
ROIC	8.8%	5.9%	7.8%	8.1%	9.0%	8.4%	11.0%	7.6%	0.4%	6.6%
Shares Out.	433	438	444	453	462	474	486	497	503	515
Revenue/Share	8.20	10.99	11.20	11.31	10.60	7.90	7.08	7.51	8.07	7.88
FCF/Share	1.43	0.79	0.77	0.80	1.26	0.83	0.95	(0.17)	0.08	0.40

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

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