

# Shaw Communications Inc. (SJR)

Updated July 31<sup>st</sup>, 2020 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$18.3	<b>5 Year CAGR Estimate:</b>	7.0%	<b>Market Cap:</b>	\$9.4B
<b>Fair Value Price:</b>	\$16.5	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	9/15/2020
<b>% Fair Value:</b>	111%	<b>5 Year Valuation Multiple Estimate:</b>	-2.1%	<b>Dividend Payment Date:</b>	9/29/2020
<b>Dividend Yield:</b>	4.8%	<b>5 Year Price Target</b>	\$21	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	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 \$9.4 billion USD. The stock is listed in both Canada and the US.

Shaw reported third quarter results on July 10<sup>th</sup>, and reported consolidated revenue decreased by 0.8% to \$1.31 billion CAD. Adjusted EBITDA, however, increased 15.3% year-over-year to \$609 million CAD.

Due to temporary retail store closures of 90% of Freedom Mobile's stores, and other government imposed stay at home rules, wireless subscriber activity was exceptionally soft with 2,200 postpaid net additions; the company maintained its wireless subscriber base at nearly 1.8 million customers. The slowdown in customer activity caused postpaid churn rate to come in at a record low 0.96%, a 61-bps reduction from the latest quarter, and 22 bps lower than 3Q 2019. As of June 30<sup>th</sup>, just about all Freedom Mobile retail stores have reopened. The company successfully continued growing ABPU by 5.7% to \$44.27 CAD and ARPU by 2.6% to \$38.94 YoY.

Free cash flow increased 27% compared to third quarter 2019, up to \$221 million CAD. Year-to-date, free cash flow has increased 20.2% to \$595 million. This increase was mainly due to higher adjusted EBITDA and lower capital expenditures and interest. Adjusted EBITDA of \$609 million was 15.3% higher than last year's \$528 million. Adjusted EBITDA margin improved significantly from 39.9% to 46.4%, for a 16.3% increase. Diluted EPS of \$0.35 CAD fell 18.6% YoY, equivalent to \$0.26 USD.

At the end of the third quarter, net debt leverage stood at 2.4x compared to its target leverage range of 2.5x to 3.0x. The company has approximately \$650 million CAD of cash on hand. Despite dropping previous guidance, the company is now stating that they expect to deliver adjusted EBITDA growth and free cash flow of around \$537 million USD, which supports current dividend levels.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$1.23	\$1.54	\$1.61	\$1.52	\$1.58	\$1.29	\$0.68	\$0.88	\$0.74	\$1.09	<b>\$0.97</b>	<b>\$1.24</b>
<b>DPS</b>	\$0.86	\$0.88	\$0.96	\$0.94	\$0.93	\$0.84	\$0.89	\$0.95	\$0.87	\$0.91	<b>\$0.88</b>	<b>\$0.95</b>
<b>Shares<sup>1</sup></b>	433	438	444	453	462	474	486	497	503	515	<b>513</b>	<b>525</b>

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 5% earnings-per-share growth annually moving forward. These gains will come from continued revenue growth mostly, as well as the increasing margins Shaw is experiencing. 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 with strong ABPU growth. Retail partnerships with Loblaws and Walmart – chains with huge amounts of foot traffic – should help Shaw in achieving their revenue growth rates in the coming years. While we are forecasting

<sup>1</sup> In millions

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

# Shaw Communications Inc. (SJR)

Updated July 31<sup>st</sup>, 2020 by Quinn Mohammed

stronger growth than what Shaw has historically been able to produce, the company seems to have turned the corner. Fiscal 2020 has seen significant cost savings, which will help drive free cash flow to approximately \$537 million USD.

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 reasonably 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	<b>18.9</b>	<b>17.0</b>
Avg. Yld.	4.3%	4.3%	4.8%	4.4%	4.2%	4.1%	4.7%	4.3%	4.8%	4.6%	<b>4.8%</b>	<b>4.5%</b>

Shaw's valuation has moved around a lot in the past decade and today sits at 18.9 times our 2020 earnings-per-share estimate, a richer valuation than The Big 3 (Robelus). 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 17 times earnings. That implies that Shaw is currently overvalued and should produce a 2.1% 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%	60%	62%	59%	65%	131%	108%	118%	83%	<b>91%</b>	<b>77%</b>

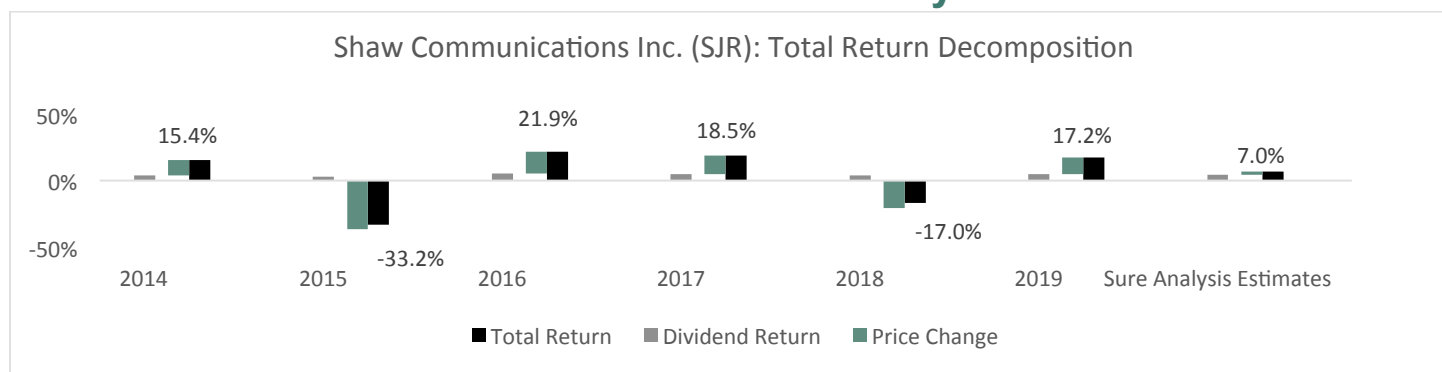
Shaw's quality metrics have stabilized after some meaningful declines in margins. We see margins as increasing slowly moving forward, congruent with the last few quarters. Debt has come down off much higher levels and today, Shaw's balance sheet leverage is quite low by telecommunications company standards. Interest coverage is good and while the payout ratio is 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, and its partnerships with Loblaw's and Walmart. We see these factors as driving growth for years to come. It is not immune to recession but telecom companies like Shaw tend to hold up very well, and this has been the case so far throughout the coronavirus impact.

## Final Thoughts & Recommendation

Shaw is currently overvalued, despite its robust growth prospects and high yield, it trades at 111% our estimated fair value. We see total annual returns of 7.0% in the coming years, primarily consisting of a 4.8% yield, 5.0% earnings-per-share growth, and a 2.1% headwind from the valuation. While Shaw offers investors a high yield, there is valuation risk as it is the most expensive Canadian telecom play on a PE basis. We rate Shaw Communications a hold.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

*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*

# Shaw Communications Inc. (SJR)

Updated July 31<sup>st</sup>, 2019 by Quinn Mohammed

## 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.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.